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INTERNATIONALIZATION OF ENTERPRISES

Evidence of Finnish SMEs

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ABSTRACT

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INTERNATIONALIZATION OF SMEs; EVIDENCE OF FINNISH SMEs

Research Objectives

The objective for the theoretical part of the study is to present four widely recognized internationalization models (decision-making model, Uppsala-model, network model, and born global firms-model), and to examine those from the SMEs a point of view. Based on the findings of the literature review, I will orientate to examine the two latter theory lines in more detail through two real-life case companies. The aim of this study is to test, which of the network and - born global theory framework factors the selected case companies have considered important behind their internationalization decision-making.

Data Sources and Research Methodology

The theoretical part of the study is based on the contemporary academic literature regarding the enterprises' internationalization. The empirical part of this research concentrates on the internationalization motivations of two Finnish case companies, which have internationalized recently through the particular strategies. The nature of the research is explorative and qualitative. I have gathered the primary materials through face-to-face and telephone semi-structured interviews and in addition sent enquiries via e-mail after the interviews. The written company documents and annual reports were used as secondary data source for this research.

Results

Based on the literature I established seven propositions, which were tested in the empirical part. Three out of seven got a full confirmation for the theoretical assumptions. One of the propositions behind the particular theories was partly confirmed and three of the empirical findings were reversed. The gathered results can be affected by the unique characteristics of the particular industries and the case companies. In addition, the theories are created to describe a common internationalization situations, thus there might occur occasional differences between theories and individual cases. Thirdly, the current changes and requirements in companies' operational environment are fairly different from the situation when the particular internationalization models were created.

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PK-YRITYSTEN KANSAINVÄLISTYMINEN; CASE SUOMALAISET PK-YRITYKSET

Tutkimuksen tavoitteet

Pro-graduni kirjallisuuskatsauksen tavoitteena on tutustua neljään laajasti arvostettuun kansainvälistymisteoriaan (päätöksenteko-malliin, Uppsala malliin, verkosto malliin, sekä born global-yritys malliin) pk-yritysten näkökulmasta. Kirjallisuuskatsaukseen pohjautuviin päätelmiin nojaten, jatkan empiiristä tutkimusta kahdesta jälkimmäisestä kansainvälistymismallista kahden suomalaisen case yritysten avulla. Tutkimuksen tavoitteena on testata kyseisten mallien selittävien muuttujien merkitsevyyttä case yritysten kansainvälistymisen päätöksenteon taustalla.

Tutkimuksen aineisto ja menetelmät

Pro-gradun kirjallisuuskatsaus pohjautuu yritysten kansainvälistymistä tutkivaan akateemiseen kirjallisuuteen. Tutkimuksen empiirinen osa keskittyy hiljattain kansainvälistyneisiin suomalaisyrityksiin, ja niiden kansainvälistymisen taustalla olevien motivaatiotekijöiden analysointiin. Tutkimus on luonteeltaan tutkiva ja kvalitatiivinen. Ensisijainen tieto on kerätty puolistrukturoitujen haastatteluiden avulla, jotka suoritettiin kasvotusten tai puhelinhaastatteluina. Muutamassa tapauksessa, saatuja haastattelutuloksia tarkennettiin jälkeenpäin sähköpostikyselyinä. Toissijainen tutkimusmateriaali saatiin yrityksiä koskevista materiaaleista ja vuosikatsauksista.

Tutkimuksen tulokset

Kolme seitsemästä tutkimukselle asetetuista olettamuksista teorioiden selittävien muuttujien pohjalta sai vahvistuksen. Yksi olettamuksista sai osittaisen vahvistuksen, kolmen olettamuksen osoittaessa miltei päinvastaisia tuloksia. Saamiini tuloksiin saattavat vaikuttaa uniikit ominaispiirteet sekä case yritysten että case yritysten toimialojen osalta. Toiseksi on muistettava, että teoriat on kehitetty kuvaamaan laajempaa kokonaisuutta, joten yksittäiset case-tulokset voivat poiketa malleille asetetuista viitekehyksistä. On myös huomioitava, että nykypäivän toimintaympäristössä tapahtuneet muutokset ja sen asettamat vaatimukset yrityksille ovat melko erilaiset verrattuna testattavien mallien kehitysajankohtaan.

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1. Introduction

The research development of companies' internationalization has been formed historically to explain the international trade. Mercantilism was the dominating ideology from 16^{th} to 19^{th} century, where the main foundation was the idea that a single country can get wealthier by increasing its exports and at the same time keeping the imports on a lower level. Adam Smith's absolute advantage theory in 1776 explained that the wealth of nations should be measured by taking account the amount of goods and services which are accessible by the citizens and not be measured by taking account just the gold reserves as it was professed in the mercantilism. Smith's idea in *the Wealth of Nations* (1776) was that a certain good is made on different efficiency levels in different countries, which is why international trade increases the overall wealth. Proportional advantage theory by Ricardo (1817) concentrated to the possibility where increased efficiency can be achieved by specialization in manufacturing of some certain goods.

The intensive academic research of enterprises' internationalization and foreign direct investments started in 1960's. At first the research work was influenced by the common market theories based on mercantilism. Staffan Burenstam Linder examined enterprises internationalization process from the economics point of view. His book *An Essay on Trade and Transformation* (1961) began a wider conversation of enterprises internationalization and it entailed the research work closer to present research direction. Later on researchers started to discuss the decision-making between a foreign exporting and foreign direct investments (FDIs). During the last 15 years research work has concentrated on the network models of internationalization, which explain the internationalization of enterprises by different relationships between customers and other actors of the environment (Hollensen, 2001). The new trend in international business has been the *born global-firms*. These enterprises have evoked considerable amount of discussion because the different characteristics to the old standard multinational enterprises (MNEs) (McDougall & Oviatt, 1994). Many disciplines have had their own influence on internationalization theory development and will have it also in the future. Overall, foreign operations of enterprises have been explored widely and there are numerous internationalization theories on the market.

The study of the internationalization has concentrated mainly on the MNEs. Historically, many MNEs developed from large, mature, domestic firms and they commanded attention because they wielded significant economic power, especially after World War II (Chandler, 1986). However, recent increase in competition and falling barriers to international trade has also pressed many small firms to compete in international markets (Wolf & Pett, 2000). The technological innovation, information networks and the presence of increasing number of people with international business experience have established new foundation for SMEs (McDougall & Oviatt, 1994). All these changes and developments have increased internationalization research also from the small and medium-sized enterprises' (SMEs') aspect.

1.1 Objects and Boundaries of the Research

The main aim in this master's thesis is to concentrate on two internationalization theory lines from the SMEs' perspective. The major objective is to test and analyze; which of the network, and -born global theory framework factors the selected case companies have kept in important position behind their internationalization decision-making. The Table 1 below shows the particular explanatory factors, which are examined closely in the chapters four and five. The theory framework of this thesis is based on the two particular theories: network model and born global firms-model, and the assumptions behind these models.

Table 1 The theory framework of the master's thesis

Two Theories	Seven Explanatory Factors
Network Model (Johanson and Mattsson, 1988)	International vision from company's inception
Born Global Firms-model (McDougall and Oviatt, 1994)	Process model mindset behind company's internationalization
	Existence of international business experience and know-how
	Use of networks and partnerships in company's internationalization
	Company internationalize to achieve some competitive advantage
	Importance of industry pressure behind company's internationalization
	Lean organizational structure enables the use of particular model

The two main theories used in this study are presented in the first column in the Table 1. The seven major explanatory factors of the theories are listed in the second column. Five of the factors explain individually one or the other internationalization theories and two of the factors both of them. First, third, sixth and seventh of the factors explains the internationalization characteristics of the born global firm company. Second factor explains the internationalization of the network model company and the rest, fourth and fifth factor are created to explain both of the models. In a situation where the same factor is assumed to describe both models, the importance levels may still vary.

The theoretical aspect and framework assumptions for this master's thesis are based on the internationalization theory findings in my bachelor's thesis: the internationalization theories; SME perspective. In my bachelor's thesis all the assumptions were based on widely recognized internationalization theories by the academic spheres. I found from the theoretical point of view that the network (by Johanson & Mattsson, 1988) and the born global firms models (by McDougall & Oviatt, 1994) were discovered to be fairly eligible ones for the internationalization of small and medium-sized enterprises (see the specific justifications in 2.6-2.8). SMEs have their own characteristics, which usually restrict more specifically the internationalization model selection compared to their larger competitors (Shuman & Seeger, 1986). These particular internationalization models seem to have taken into consideration those size specific features of SMEs and also the changing requirements of present day market pressures.

The empirical part of the thesis is based on qualitative multiple case studies. There are two case companies, which are examined from the theoretical aspects: the case company A represents the network model, and the case company B represents the born global firms-model. I used the semi-structured interviews in gathering the primary data for the analysis; some specifications had to be done afterwards by an e-mail. The secondary data was gathered from company documentations and annual reports.

1.2 Definitions of the Main Concepts

The main concepts for this master's thesis are: small and medium-sized enterprise, internationalization, network model and born global firms-model. The review of internationalization theories includes also discussion of different entry-modes, thus the import, export, alliance, and foreign direct investment (equity and non-equity joint venture, acquisition, greenfield) strategies are defined shortly.

Small and medium-sized enterprise (SME)

Definition of SME by European Union (OJ L 107 of 30.4.1996, p.4); The allocation is done by 1) maximum number of employees (for small-sized enterprises <50 and medium-sized enterprises <250), 2) maximum turnover in million euros (for small-sized enterprises 7 million euros and for medium-sized enterprises 40 million euros), and 3) maximum balance sheet total in million euros (for small-sized enterprises 5 million euros and for medium-sized enterprises 27 million euros).

To be classed as an SME, an enterprise has to satisfy the criteria for the number of employees and one of the two financial criteria. In addition, it must be independent, which means less than 25% owned by one enterprise (or jointly by several enterprises) falling outside the definition of an SME. The thresholds for the turnover and the balance sheet total will be adjusted regularly, to take account of changing economic circumstances in Europe (normally every four years).

Internationalization

The term internationalization is used to refer to "process of increasing involvement in international operations" (Luostarinen & Welch, 1990). Internationalization includes everything from the first international deal to the decision to place one's headquarters in another country. Internationalization is the result of both emerging business opportunities and planned search for new markets. Internationalization can also be described as an extension of the firm's system of knowing into a new cultural context. The major difference between foreign and domestic business relationships seems to be that foreign business requires knowledge what the firm has not learned in its domestic business. The process of learning about the counterpart is more difficult in other markets. By Jukka Hohenthal (2001), "the process of understanding the counterpart is more difficult; the country culture is different, which leads to greater uncertainty; and second-loop learning in the form of learning about learning to know a foreign country."

The internationalization from the process aspect as Luostarinen and Welch (1990) defined is also basic assumption for the first three internationalization theories: decision-making model, Uppsala-model and network model. However, companies' internationalization through the born global firms-model does not fulfill the process mindset, but as opposed the companies internationality is seen as an immediate characteristic. In addition to the process and non-process thinking, the companies' internationalization is assumed in this master's thesis to be diverse and bidirectional development: including inward and outward business operations (Ahokangas, 2002).

Network Model

The relationship network is defined by Johanson and Mattsson (1988) as an industrial system, which engaged the production, distribution and use of goods and services of some particular group of companies. Because of the work division between network partners, the companies are dependent on each other, and the activities need to be co-ordinate. The development process of the network relationships can restrict the possibilities to change counterparts. "The need for adjustments between the interdependent firms in terms of the quantity and quality of goods and services exchanged, and the timing of such exchange, call for more or less explicit co-ordination through joint planning, or through power exercised by one party over the other" (Johanson & Mattsson, 1988).

Network model by Johanson and Mattsson (1988) explain enterprise's internationalization as a cumulative process, where enterprise continually establishes, develops and revokes business relationships with other parties. Through a dynamic development of national and international network relationships, the company aim to achieve short-term economic return, and to create positions in the network, securing the long-term survival and development of the company. The network activities and network positions secure the company's access to important resources and the sale of its products and services (Johanson & Mattsson, 1988).

The network relationships can be created and developed furthermore to new local networks from the current network position (international extension). Enterprises can also develop business relationships and resource engaging further in those relationship channels that already exists and where enterprise has an access (penetration). In addition, in international integration the different national networks will be connected together (Johanson & Mattsson, 1988).

Born Global Firms-model

Definition for international new ventures by McDougall and Oviatt, (1994):"International new venture as a business organization that from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries". These start-ups often raise capital, manufacture and sell products on several continents, particularly in advanced technology industries where many established competitors are already global. The focus in the born global firms-model is on the age of firms when they become international, not on their size.

These new ventures begin with a proactive international strategy; they arrange strategic alliances because they do not necessarily own foreign assets. Thus, new ventures with limited resources may compete successfully in the international arena. Case studies have witnessed that the success of international new ventures seems to depend on having an international vision of the firm from inception; an innovative product or service marketed through a strong network and tightly managed organization focused on international sales growth (Jolly *et al.*, 1992).

Import Operations

Basically, the international purchasing/importing (inward international operations) does not differ from the domestic purchasing operations. Traditionally, the purchasing has been examined from the aspects of unit, enterprise, product or industry. All of the previous four levels can include different kind of interaction between enterprise and producer, which affects on enterprise's effectiveness and results. After all, the risk levels are usually higher in the international purchasing/importing than in domestic purchasing operations. Reasons for this "inward internationalization" differ from simple necessity to technology purchasing from foreign markets. Widening of the product assortment through foreign products can be strategic choice for the enterprise to restrict the international competition in some certain market-area. It can be also question of strategic integration, taking part in wider material stream. Importing has not been kept traditionally central problem in enterprise's internationalization process. However, many enterprises face the internationalization firstly through importing/purchasing (raw materials, components) (Luostarinen & Welch, 1990).

Export Operations

Exporting has been traditionally regarded as the first concrete step in entering international markets, serving as a platform for future cross-border expansions (Kogut & Chang, 1996). Conceptually, several economic benefits can be gained by exporting. The most obvious economic benefit achieved from export operations are related to the economies of scale and the economies of scope. These can be achieved from larger sales and production volumes made possible by the geographic extension of operations. In addition, a presence in multiple, diverse international markets provide market power and gains from the diversification of revenues (Kim *et al.,* 1993). The potential economic benefits from exporting, together with the stepping-stone effect for future international expansion, suggest that the extent of exporting should be positively related to an SME's financial performance (Erminio & Rugman, 1996). Ahokangas (2002) classified three different export modes: 1) indirect export, 2) direct export, and 3) own export. The main difference is the choice of exporter. In the indirect export the company exports its product through domestic intermediary, at the direct export company operates through foreign intermediary, and in the last stage the whole export channelling from production into end-customers is done through own operations.

Alliance

In practice, every operation form includes some collaboration with other party or parties. Collaboration can include anything between common relationship between buyer and seller to partnership. The different parties in collaboration can be for example customer, intermediary, authority or expeditor. International collaboration can be formed with domestic or foreign parties in home or foreign markets regardless the size of parties. In addition, the collaboration can involve any function from the enterprise's business (Ahokangas, 2002).

Prior research on alliances points to several benefits including the minimization of transaction costs, increased market power, shared risks and better access to key resources such as capital and information. For SMEs, foremost among these benefits is access to the partner's network resources, meaning already existing business relationships (Gulati *et al.,* 2000). More importantly alliance partners represent an important source of host country knowledge to SMEs. However, this learning-by-doing process takes time and can result in mistakes that are disproportionately more extensive to an SME than a large firm (Beamish *et al.,* 1999). By accessing alliance partners' knowledge base, an SME can accelerate its learning process and minimize mistakes.

However, alliances are not risk-free and face problems in successful implementation (Deeds & Hill, 1998). Compared with wholly owned entries, alliances have complexities arising from the cooperation and coordination of two or more partners. There are such potential problems as goal conflicts, cultural differences and disputes over the division of control. Any of these drawbacks can lead to instability or even failure. While the need for additional resources frequently necessities the formation of alliances, the difficulties with alliance management mean that the formation of alliance itself is no guarantee to an SME's successful entry into international markets. A real issue facing an SME entering into an alliance is to find the right partner (Baum *et al.*, 2000).

Foreign Direct Investments (FDI)

FDI is defined as "investment made to acquire lasting interest in enterprises operating outside of the economy of the investor." The FDI relationship consists of a parent enterprise and a foreign affiliate which together form a Multinational corporation (MNC). In order to qualify as FDI the investment must afford the parent enterprise control over its foreign affiliate. The UN defines control in this case as owning 10% or more of the ordinary shares or voting power of an incorporated firm or its equivalent for an unincorporated firm; lower ownership shares are known as portfolio investment.

While exporting is an internationalization mode that involves less risk in terms of capital investment it can expose the firm to greater risks in terms of distributor opportunism or asset appropriation and devaluation when the firm's assets are proprietary (trademarks or patents). When enterprise face these risks, FDI becomes an attractive internationalization way, because it enables firms to minimize transaction-related risks through internalizing markets for proprietary asset exchange across international borders and the diversified locations enables the firm to leverage various location based advantages. In addition, potential to promote organizational learning in diverse international markets has been argued to be a key benefit of international expansion (Zahra *et al.,* 2000).

In addition to these potential benefits, FDIs requires a greater level of resource commitment in foreign countries than exporting and it is more difficult to reverse. Usually SMEs struggle with the scarce of resources and capabilities, which is why FDI entry-mode is less used by SMEs than large enterprises. FDI is also less flexible than exporting in coping with investment hazards such as political instability and fluctuating market conditions in host countries. SMEs are sensitive especially for these external barriers, because they do not have market power and slack resources to lean on as its larger rivals do.

At the very beginning of internationalization, performance might decline as SMEs are subject to the liability of foreignness and may have to pay some 'extra' in terms of profits for their mistakes in their initial expansion into international markets. Performance will increase as ownership advantages are exploited in a greater international spread and as new capabilities are developed in international markets (Tallman & Li, 1996). However, performance will eventually fall off as governance costs and coordination costs surpass the benefits from internationalization. At this point, the higher costs attributable to internationalization will be offset by rapidly increasing governance and coordination costs and firm performance will be delayed as managers learn how to better control worldwide operations (Hitt *et al.*, 1997).

Companies may enter foreign markets in many different ways, including importing/exporting, alliances (licensing) and direct investments (Root, 1994). When undertaken foreign investment, company face two basic decisions: whether to own all or part of the investment and secondly, whether to set up a new investment from scratch or acquire an existing entity. The next three different entry modes represent the various possibilities of foreign direct investment.

Joint Venture

A joint venture is an entity formed between two or more parties to undertake economic activity together. The joint ventures are agreements between parties for a particular purpose. The parties agree to create a new entity by both contributing equity, and they then share in the revenues, expenses, and control of the enterprise (equity joint venture). There are also non-equity joint ventures (also known as cooperative agreements), in which the parties seek to gain some technical service arrangements, management contracts, rental agreements etc. Thus, all joint ventures are not developed to achieve some capital or equipment. The internal reasons for joint ventures are to build on company's strengths, typically by spreading the business risks and costs with partners, improving the access to financial resources through partners, achieving the economies of scale and advantages of size from larger demand, and through the access on new technologies, customers and innovative managerial practices (Luostarinen & Welch, 1990).

Acquisition

As defined by Casu *et al.,* (2006), "acquisition is situation when company takes over another and clearly becomes the new owner". The advantages gained from the acquisition are founded typically from the already existing facilities, personnel and customers. The challenges of acquisitions however are related also for these existing assets: management, re-organization and motivations.

Greenfield Operations

Greenfield activities are based on own business creation in new market area. Greenfields are new plants, typically, but not exclusively manufacturing, that belong to an existing organization. Greenfields are further distinguished by a unique management philosophy that includes high performance, high involvement practices and term-based work design (Becker, 2007).

1.3 Structure of the Master's Thesis

In the next section two, I will present the literature review of the internationalization theories and more extensive examination of the latter two theories: network model and born global firms-model. The third section of the study includes the research's methodology description. The research propositions and the academic basis for them will be presented in fourth section. The fifth section will focus on the description of the case companies and the main analysis of gathered interviews. In the fifth section I will test the propositions settled in the section four. The research results are summarized in the sixth section with the comparison to the original theory framework assumptions. In the conclusion section I will discuss the internationalization of the SMEs, the gathered case results and their meaning in the bigger picture. The last section includes also the remarks for the study limitations and the proposals for future research subjects.

2. Literature Review of Internationalization Theories

In this section I will examine the literature of internationalization theories. Firstly, I will study the global market situation today, the internationalization characteristics of companies' and then the internationalization of the Finnish SMEs in more detail. Secondly I will examine the four different theory lines: concepts based on economic theories (By Dunning, 1980; 1988), stage theory (By Johanson & Wiedersheim-Paul, 1975), network model (By Johanson & Mattsson, 1988) and born global firms-model (By McDougall & Oviatt, 1994). The objective for the theory review is to concentrate on examining how the theories have been formulated to describe the internationalization of small and medium-sized enterprises.

In this literature review the focus is especially directed on the latter two theory lines. The empirical research and the analysis of this study will be based on those theory frameworks presented later on. This literature review will elicit information that will enable the acceptance for use and set of the frameworks in building the empirical research foundation.

Discussion of small businesses' international strategies involves recognizing that research on multinational enterprises is not directly transferable to small firms. Although, both sizes of companies deal with many of the same issues, smaller business also deal with unique size related issues as well for example resource poverty, differences in scale of operations, cost structure and personal characteristics of the important people (Shuman & Seeger, 1986).

Many researchers, who have examined internationalization of enterprises, think the internationalization as a process. A process, where the consciousness of forthcoming direct and indirect international business actions increases and where business relationships are developed with other countries by widening into new networks or integrating networks together (Beamish *et al.,* 1999). Mainly all the internationalization theory lines (concepts based on economic theories, stage theories, network models), which I will present in this literature review later on, are based on process thinking. Exception will be the born global firms-model, which is formulated to describe enterprise's internationalization as an immediate entry into wide global markets (McDougall & Oviatt, 1994).

2.1 Review of the Global Market Situations Today

During recent years, a significant development has been the increasingly active role played by SMEs in international markets (McDougall & Oviatt, 1994). SME development is seen as a key to economic growth, innovations and market competition in most advanced Western economies (Acs & Audretsch, 1990). Small businesses are well recognized and acknowledged worldwide as vital and significant contributors to economic development, job creation and the general health and welfare of economies, both nationally and internationally (Morris & Brennan, 2000). The small business sector presents a statistically significant proportion of the world economy, for example in the European Union only one percent of businesses have more than 50 employees (Department of trade and industry, 2000). Still, whereas large firms and particularly multinational enterprises possess considerable experience of involvement in world markets, the majority of small businesses have only recently adopted international perspective in their strategies (Tesar & Moini, 1998).

The last two decades have witnessed a gradual movement towards world economy characterized by the following three features. The first is the emergence of intellectual capital as the key wealth-creating asset in most industrial economies. Secondly and even more visible, is the increasing globalization of economic activity made possible, by advances in transport and communications technologies, the reduction in trade and investment barriers throughout the world. The third feature of the contemporary global economy is the emergence of what may be called 'alliance' capitalism (Dunning, 1998).

2.2 Characteristics of Internationalization

When starting a small business, owners accept three categories of risk that together ultimately determine the success of their business; mostly these risks apply also for internationalization of business. Firstly, there is the risk associated with the economy in which that business is located (economy based risk). Secondly, there is the risk associated with the industry in which the business is operating (industry based risk). And thirdly, there is the risk unique to the business itself (firm based risk) (Everett & Watson, 1998).

There is a wide range of variables, which might be driving the enterprise's decision to internationalize its operations. Reasons for SME's internationalization are usually found from the internal and/or external factors. Internal factors are for example additional production capacity, suitable products for international markets, or some other internal competitive advantage. In that case reasons for internationalization lie on contingency, which opens a possibility to wider operations on foreign markets. External factors are for example foreign bids or weak market situation in domestic markets (Ahokangas, 2002).

Most of all, international expansion is one of the most important paths for the growth of enterprises. It is a particularly important growth strategy for SMEs, whose business-scope has been geographically confined (Barringer & Greening, 1998). By broadening customer bases through entering into new markets, firms are able to achieve larger volume of production and growth. By leveraging resources in different markets, firms are in a position to capitalize market imperfections and achieve higher returns on their resources. SMEs will adopt geographic expansion-strategy to pursue new opportunities to leverage core-competences across broader range of markets (Zahra *et al.*, 2000).

In most international business textbooks, the size and quality of potential market are considered to be the most important motives for enterprise's international operations (Johanson & Wiedersheim-Paul, 1975). For example in industries like biotechnology and pharmaceutical industry it would be difficult for a firm to survive in small and domestic market area, like Finland. This is simply because the domestic customer demand is too low for encompass the high research and development (R & D) costs and for achieving profitable operations in the long-term. In some industries the international markets are more developed, competed and on a higher quality level. Consequently, the customers are more demanding and quality conscious; in addition, the pressure from the international competitors forces the enterprise continuously on further improvements of their product and/or services. On the other side, international markets can offer better access to information and business networks (as strategic advantages) compared to business operated only in domestic markets.

Sometimes enterprise's internationalization can be also a result of unexpected interests of foreign consumers. This phenomenon is called market pull. It is an environmental and external force that stimulates enterprise to cross-border into international markets with its competitive product and/or service.

All the internationalization reasons mentioned above look at the internationalization from enterprise's individual perspective, in other words from a micro level. The most important motivator for internationalization from markets perspective as a whole (macro level) is the markets' globalization. Globalization can be defined as the worldwide integration of economic, cultural, political and social systems. Lovio *et al.*, (2006) divided globalization into two different processes, which have affected the changes in internationalization from the macro economic point of view; 1) internationalization of business operations and strengthening position of multinational enterprises, and 2) the changes in international distribution of work.

There are many interesting economic aspects in globalization for enterprises: diversified ownership, access to skilled personnel, more tangible and intangible assets, costs efficiencies in production and deliveries etc. In most of the cases, globalization has been positive phenomenon for enterprises by creating wider business opportunities. On the other hand many enterprises have experienced tougher competition in their domestic markets as international competitors have accessed them. This means that globalization of markets does not only encourage but actually often forces firms to become more efficient and competitive.

2.3 The Internationalization of Finnish Small and Medium-sized Companies

Holmlund and Kock (1998) studied internationalization of Finnish small and medium-sized companies and the impact of domestic business network on SMEs internationalization activities. The analysis was built on 128 responses from the Vaasa province in Finland. Researchers found that Finnish SMEs in this specific area use commonly an agent or own salesman abroad, because of resource saving. The research sample showed that SMEs had a frequently lack of knowledge; marketing, production and capital. The increasing resource commitments was seen to be the barrier of SMEs' internationalization, and in many cases the company had stuck into the first phase of process based internationalization progression (see 2.5 the stage theory).

According to the previous research, the effect of the social network on the internationalization process has so far been more or less neglected. In small and medium – sized companies personal resources become crucial, because the internationalization process is often managed by one person, thus a significant duty is trusted on his or her knowledge, experience and social contacts. In this aspect, the creation of new relationships in an international context is significant matter on small and medium-sized companies in Finland.

"Social bonds emerge over time when individuals carry out business exchanges, thereby creating a capital of trust" (Holmlund & Knock, 1995). SMEs in Finland can consequently achieve an access on vital and necessary business information, and social contacts overall, through these social bonds. Especially, when the company is in the start-up position, the information is commonly gained through the personal contacts. Thus, the social network also in the home country will have a significant effect on the internationalization process of the company.

2.4 Concepts Based On Economic Theories

Internationalization theories based on economic theories explains the expanding process to abroad leaning on advantages like a strong market-position, a transaction costs, owners advantage and location. Thereby, economic based models explain the entry-mode selection by capital –intensive operation forms (Johanson & Vahlne, 1990).

Decision-Making Model (Eclectic Paradigm)

Decision-making model by Dunning (1980; 1988) is the first internationalization theory presented in this literature review. It aims to describe internationalization of enterprises (SMEs and MNEs) from the economics perspective. Dunning emphasized in his model the role of international production of enterprises' operations. "Eclectic theory postulates that there are three conditions necessary to explain the preferences of the mode of entry to international markets" (Driscoll & Paliwoda, 1997). The keynote for this model is possession of three factors: 1) ownership, 2) location, and 3) internalization advantages. Dunning (1980) found that enterprises aspire to establish production activities there, where they can exploit their competitive advantages in a best possible way leaning on the advantages mentioned above.

According to this model, for example a factory should be located for an area, where the ownership brings the best advantage. Internalization factor means in this context a though that multinational enterprise aspires to operate through subsidiaries in certain market conditions rather than exports or contracts. Hence, the needed internationalization resources (for example SMEs intellectual property) can be internalized and controlled more effectively than by other entry modes. Consequently, the knowledge and control of operations will maintain inside enterprise, which is usually needed to sustain the competitive advantage in international operations.

Time and relationships between enterprises are also essential factors in Dunning's (1980; 1988) decision-making model. Choice where to locate the new factory should be consequence of present day and upcoming customer-, and competitor relationships. The time aspect comes from the time between the company's operational choice and the concrete implementation, with the reactions of customers and competitors during the implementing time.

The decision-making model was first formed to describe the foreign direct investments of large, MNEs. Later on, Dunning (1998) and other internationalization specialized researchers (Driscoll & Paliwoda, 1997; Agarwal & Ramaswamy, 1992) have developed this eclectic paradigm furthermore and extend it to comprise also entry modes like exporting and contractual joint ventures; entry modes, which are usually preferable in SMEs' internationalization.

Dunning (1998) has also defined variables, which motivates enterprise to expand its operations to foreign markets. In addition, to those motivation factors mentioned below, the contextual factors like enterprise size, internationalization level, original country or – area and industry, affects to the willingness to expand operations abroad. The motivation factors for MNEs' and SMEs' are:

1. Resource seekers
2. Market seekers
3. Efficiency seekers
4. Strategic asset seekers

Resource Seekers

Resource seekers extend their operations to abroad to gain some important resource, which is possible to attain at lower costs from the new target market. Typically, the price, quality and accessibility of natural resources were found to be the most significant motivators for FDIs of developed countries (Dunning, 1998). In addition, the development of the distribution infrastructure, and the presence and quality of host-country partners seem to affect on the internationalization decision of resource seekers.

Market Seekers

Market seekers expand their operations to foreign markets to find more demand on their products. In 1970's most of the enterprises expanded their operation inside of the domestic borders and for neighbor countries. In 1990's the home markets expanded still, but enterprises widened their operations into larger region markets, for example EU-area. In addition to the demand extension, a better supply of more competitively prized professional labor, materials- and distribution costs stimulates the market seekers to internationalize. Nowadays, also the need of knowledge-intensive industries to locate close to end-customers, push enterprises to foreign markets (Dunning, 1998).

Efficiency Seekers

This group search efficiency by expanding their operations to foreign markets. The main efficiency area focuses on the production; especially on the personnel, materials and machinery costs. Issues like investment costs, tax-relieves, accelerated depreciations; different subsidies and land area supports can provide significant advantages for efficiency seekers. Since 1990's governments have removed intensively the barriers, which have slowed down the financial activities and facilitated in enterprises' personnel development by suitable training programs, and investing in new science-, and industry-villages (Dunning, 1998).

Strategic Asset Seekers

Strategic asset seekers expand cross-border to achieve some strategic advantages (for example, access on databases, cultural features, institutions or local networks), which are usually needed on positioning the company into the target markets. The companies' possibilities to become acquainted with their consumer base and their special affections, offers a significant strategic motivation for internationalize into foreign markets (Dunning, 1998).

Mainly every motivation factors mentioned above are included in some way on the companies' willingness to begin the internationalization. However, the enterprise characteristics, especially the size and resources divide the main motivation factors quite differently. SMEs have commonly some shortage of resources; this feature leads on to the SMEs to concentrate on the resource- and strategic asset seeking (for example through alliances or networks). MNEs however do not usually suffer from resource shortages, but to gain enough demand on their products, they need to concentrate on their target markets (market seekers). In addition, the need to achieve efficiency benefits from large production through the economies of scale and scope can be related with the assumptions in efficiency seekers group mentioned above. Overall, the decision-making model by Dunning (1980) was created to describe the internationalization of MNEs and SMEs as a multiple factor process and concentrating especially on the economics' aspects in companies' international production.

2.5 Stage Theory

Jan Johanson and Finn Wiedersheim-Paul from the University of Uppsala came with the idea of internationalization stages in 1975, the model explained companies' internationalization stages as a learning process. Traditionally internationalization is thought to be phased and gradual proceeding-process especially for SMEs (Ahokangas, 2002).

The Uppsala model (U-model) by Johanson and Wiedersheim-Paul (1975) focuses on the firm's involvement in foreign markets from a process aspect, where organizational learning and experience lead enterprise on more expanding operations in foreign markets. U-model can be properly regarded as behaviorally oriented theory line. Based on the authors' research arguments the gradual pattern of the firm's internationalization process can mainly be attributed on two reasons; firstly, the lack of knowledge by the firm: 'experimental knowledge' and secondly, the uncertainty associated with the decision to internationalize.

Uppsala Model

The second internationalization theory, which describes enterprises (SMEs and MNEs) internationalization performance, is Uppsala model. The basic assumption in this dynamic stage model is, as Johanson and Wiedersheim-Paul (1975), Luostarinen and Welch (1990) argues a slow internationalization process. At first, the firm develops in the domestic market and then from country-to-country. In this u-model, the internationalization is seen as the consequence of a series of incremental decisions. Authors assumed that the most important obstacles to SMEs internationalization are the lack of knowledge and resources. These obstacles are reduced through incremental decision-making and learning of the foreign markets and operations.

Johanson and Wiedersheim-Paul (1975) did not try to explain why enterprises start exporting, but especially the characteristics of step-wise progression. They assumed that because the lack of knowledge about foreign countries and a propensity to avoid uncertainty, the firm starts exporting to neighboring countries or countries that are comparatively well-known and similar with regard to business practices. The authors believed also that the enterprise starts selling abroad via independent representatives, as a means a smaller resource commitment than the establishment of a sales subsidiary. Considering the extension of activities to new markets, it is possible that the concept of psychic distance may prove useful.

Johanson and Wiedersheim-Paul (1975) developed four stages for enterprise's internationalization process. Researchers thought the four stages were important firstly, because they are different with regard to the degree of enterprise's market involvement, and secondly because they are often referred to by businesspersons. The four stages mean successively larger resource commitment and they also lead to quite different market experiences and information flows into the firm. The four-step establishment chain is:

1. No regular export activities
2. Export via independent representatives (agent)
3. Sales subsidiary
4. Production/Manufacturing

At the first stage the firm does not make resource commitments to the market and that it lacks any regular information channel to and from the market. At the second stage, the firm has a certain commitments, channel to the market through, which it gets fairly regular information about factors influencing sales. The agency establishment is made primarily during the early stages of internationalization, which means that they could be expected more closely related to physic distance than to the size of market. The third stage includes a controlled information channel between market and firm; this gives the firm ability to direct the type and amount of information flowing from the market to the firm. At the fourth stage enterprise has still larger resource commitments. The sales subsidiary establishment and increased production could expect to be influenced primarily by the market size, as it generally requires a larger minimum resource commitment than an independent representative (Johanson & Wiedersheim-Paul, 1975).

The u-model has received criticism because it includes strict stages. It is not that obvious whether a firm has established relations with an agent or not, while a joint venture with an earlier representative can be placed in the second or the third stage. U-model includes strategy choices (subsidiaries, manufacturing abroad), which includes larger internationalization steps and suites especially for larger enterprises needs. On this account, SME has seldom an opportunity to internationalize its operations through these large steps what were presented in u-model. The lack of resources and knowledge can force SMEs to internationalize through smaller steps that are not assumed in this stage theory (Johanson & Vahlne, 1990).

2.6 Network Model

The third internationalization theory that will be examined in this literature review is the network model created by Johanson and Mattsson (1988). The network model is the first model, which is used as a part of the theory setting for the latter empirical research and analysis of this thesis.

The researchers describe and define this internationalization strategy as networks of relationships between companies. As it was mentioned in the definition section earlier (see 1.2), the basic assumption behind this model is the relationship networks, which are also called an industrial system. The industrial system engaged the production, distribution and use of goods and services of some particular group of companies. Because of the work division between network partners, the companies are dependent on each other and the activities need to be coordinated. The development process of the network relationships can restrict the possibilities to change counterparts. The need for adjustments (so called resource adjustments) between the interdependent firms in terms of the quantity and quality of goods and services exchanged, and the timing of such exchange, call for more or less explicit co-ordination through joint planning, or through power exercised by one party over the other (Johanson & Mattsson, 1988).

Network model explain enterprise's internationalization as a cumulative process, where enterprise continually establishes, develops and revokes business relationships with other parties. There is a similar process characteristic to the stage theory (see 2.5); the cumulative nature of the internationalization leads on the assumption of learning process of foreign markets and new network partners. Because of motivation to avoid uncertainty, network companies attempt to create relationships with neighbor country actors or actors who are comparatively well-known and similar despite of the longer physical distance (Johanson & Mattsson, 1988).

Individual firms have different positions in the networks. Those positions are developed through activities in the network, they define important possibilities and constraints that the networks have, determine exchange conditions and handle the actual exchange. Thus, important aspects of market analysis have to do with the present characteristics of the positions, the relations and their development patterns in relevant networks for the company. Important business problems for both management and for researchers are related to investments; how the timing of activities should be decided, how to co-ordinate the shared activities, and how to co-operate with counterparts, since activities are complementary (Johanson & Mattsson, 1988).

Through the dynamic development of national and international network relationships, "the company aims to achieve short-term economic return, and to create positions in the network, securing the long-term survival and development of the company" (Johanson & Mattsson, 1988). The network activities and network positions secure the company's access to important resources and the sale of its products and services. The network relationships can be created and developed furthermore to new local networks from the current network position (international extension). The enterprise can also develop business relationships and resource engaging further in those relationship channels that already exists and where the enterprise has an access (penetration). In addition, in international integration the different national networks will be connected together (Johanson & Mattsson, 1988).

In practice the network model should be understood as a bunch of business relationship where relationships are developed in order for the enterprise to achieve its objectives. Through the interaction and learning process in relationships and foreign operations, the enterprise develops the required know-how to survive in international markets (Ahokangas, 2002).

		Internationalization Degree of Markets (Network)	
		LOW	HIGH
Internationalization Degree of Enterprise	LOW	The Early Starter	The Late Starter
	HIGH	The Lonely International	The International Among Others

Figure 1 The different internationalization situations of the network enterprises (Johanson and Mattsson, 1988)

Johanson and Mattsson (1988) defined four different internationalization situations of the network enterprises, which are affected especially by the internationalization degree of enterprise and the internationalization degree of markets.

<u>The Early Starter</u>

The upper left quarter in the Figure 1 above, describes a situation where a company has few and rather unimportant relationships with other companies abroad. The similar relationship position applies also for competitors, suppliers and other companies in the domestic market, as well as in foreign markets. The company has a little knowledge about international markets and it cannot achieve the required information via domestic relationships (Johanson & Mattsson, 1988).

Establishing the new business ventures into a foreign markets demands significant resources, which means that the size and resourcefulness of the company can play a pivotal role in its capability to internationalize. Thus, a new and fairly small-sized ventures need to lean on the process ideology and begin their internationalization in nearby markets using agents rather the subsidiaries. From this entry mode aspect there are three significant advantages, which can be gained by these new ventures from the internationalization through export activities.

Firstly, there are low requirements for knowledge development concerning the international target markets and specific market customs. Secondly, companies can minimize the demands for resource adjustments, which means that the particular new ventures are not highly integrated to other market actors as the situation would be in highly integrated networks. Thirdly, the new ventures can exploit already existing market positions through already-established international companies (export agencies). In this early starter situation, the company can utilize the market investments that the agent has made earlier in the foreign market, therefore the company can reduce its own foreign market investments and risks. After the agent based internationalization phase, when the company's international operations has stabilized and the sales volumes has increased, the company can begin to increase its own market assets and justify investment in production facilities in the foreign market (Johanson & Mattsson, 1988).

There are other alternative strategies to enter into foreign markets, for example acquisition and greenfield operations. However, these two internationalization strategies requires greater investment in short-term, which might be difficult for SMEs because the lack of resources. Regardless, the own market asset investments can offer advantage in a long-term; many empirical studies have shown the agents are not always trustworthy and doing their best to promote the exporters' products (Rosson, 1987). However, the internationalization strategies, which demands on increasing market investments, are typically used by companies, which have already become large and resourceful in the home market before establishing abroad.

In many cases the foreign counterparts of the company, for example distributors take the suggestion for further co-operation with the early starter company. Hence, the foreign counterpart uses its own market assets to establish a new company within its network. In this kind of situation, the development of the early starter's position in networks and international markets is insecure and highly dependent on the 'introducer' and its position and power in the networks, and in addition the structural phase of the particular networks (Johanson & Mattsson, 1988).

The need for resource adjustment may become quite heavy in connection with the first steps abroad. Such adjustments can be assumed to imply investments and it is important to minimize the resource adjustments in connection with early phases into foreign markets (for example through exports) (Johanson & Mattsson, 1988). The resource adjustment at the first phase internationalization holds for quantitative and qualitative adjustments: company's capacity increases because of the increased demand of international market. In addition, the new market demand may require deviation on the current product range. Another challenge is that some resource adjustments can be achieved by giving up control over the operations on exchange for the flexibility. Typically the cooperation is needed to reduce risk-taking in connection with the first step of foreign ventures; on the other hand the collaboration with other companies decreases the independency of the venture (Johanson & Mattsson, 1988).

As a summary, the early initiator is company, which has little relationships to international companies, and the same applies on the other market participants. Companies have a little information concerning foreign markets neither it can procure information from outside the company (Johanson & Mattsson, 1988). Early initiator starts to develop the industry's internationalization network as a first mover into markets. It has to define and develop the know-how what is needed in this new network. As the company becomes more internationalized, it changes from as the early starter to becoming a lonely international.

<u>The Lonely International</u>

The lower left quarter in the figure 1 above, describes the situation where the company has experience of relationships with international operators and have some network contacts into foreign countries. The lonely international has acquired knowledge and expedients to manage foreign environments, thus the internationalization failures are less likely to occur. This favorable situation arises from the developed knowledge, which is valuable in establishing the company in a new national net (Johanson & Mattsson, 1988).

The lonely international achieves an advantage from a wider selection of resource adjustments from its more extensive market area. The need for resource adjustments for both quantitative and qualitative adjustments is likely to be less significant and easier to manage (Johanson & Mattsson, 1988). It is easier for an international company to make various implementations in the international markets, because of the extensive resource possibilities. The resource advantages can be achieved through so called external resources, which mean that the company's network position provides access into resources of it network partners. The highly internationalized company may also use its market investments (for example acquisitions and greenfield operations) to get a fast diffusion of its new products, combined with the network operations. The lonely international may use its positions partially to control the internationalization moves of competitors, but may also involuntarily stimulate such moves (Johanson & Mattson, 1988).

With regard to the structures of the national networks, the international firm can be assumed to experience less difficulty than other competitors in entering tightly structured networks. The lonely international possesses already a good knowledge of many kinds of national markets, thus the further extension is not as dependent on market similarities as the early starter would be confronted with. The developed knowledge base of the lonely international can also lead to better possibilities for taking over companies with positions in the structured net, or establishing relationships with such companies. It can also give its counterparts access to other national nets: for example, the international firm has greater possibilities than others to engage in barter transactions (Johanson & Mattsson, 1988).

Opposed to the early starter situation, the international operation suggestions for the lonely international do not come from other parties in the production nets, since the firm's suppliers, customers and competitors are not internationalized. Contrary to the early starter, the lonely international has the qualifications to promote internationalization of its production net, and other companies can be engaged on this network (Johanson & Mattsson, 1988). Companies which have internationalized into foreign markets before their competitors are forerunners and may enjoy advantages in the internationalization process especially in tightly structured nets, where the network positions have been confirmed before the competitors. If the lonely international attempts to gain sustainable advantages from its position, it needs to co-ordinate activities in the different national nets. International integration is therefore an important feature in the development of the highly internationalized firm (Johanson & Mattsson, 1988).

The Late Starter

The quarter at upper right in the Figure 1 above, describes the network position of the company, in which the suppliers, customers and competitors are international. The late starter can be forced to internationalize, because of the relationships in the domestic market, by the international customers or suppliers and particularly by the additional suppliers. The late starter's investments in the domestic market can be utilized when internationalizing abroad, thus Johanson and Mattsson (1988) assumed that the late starter is not related so strictly to process internationalization. The extension pattern will be partly explained by the international character of indirect relations and the existence of entry opportunities.

In a highly internationalized production nets, the need for co-ordination is greater. This implies for the earlier establishment of own sales subsidiaries if the firm is a late starter. The size of the company is important issue according to Johanson and Mattsson (1988), in the internationalization of SMEs, the need of highly specialized and adjusted problem solving in specific sections of the production nets, are vital comparing to the MNEs. The requirements of the customers, and the technological development specify, how the network and subsidiaries should be located.

The internationalization situation of SMEs is different for large firms. In general, large companies, which have had the growth from domestic markets, are usually less specialized than small companies. This can create problems from the aspect of flexibility of the company. In this situation, there are a couple of internationalization possibilities; acquisition or joint venture. In the case of joint venture, especially the joint equity venture defined by Luostarinen and Welch (1990), the contract companies share equity, business risks, and also mutual participation of management actions. On the other hand, the acquisition would mean a larger resource commitment in company's internationalization, in a form of takeover of some international company (usually a smaller one), and through this market investment becomes clearly the new owner (Casu *et al.*, 2006). In general, it is probably more difficult for a firm which has become large at home to find a niche in highly internationalized nets, comparing to small companies.

According to Johanson and Mattsson (1988), the late starter can be faced by a comparative disadvantage in terms of its lesser market knowledge, difficulties in establishing the new position in a tightly structured network, or it might face predatory pricing by its competitors. However, the late starter might achieve some 'late mover' advantage from reaching the trust of foreign actors much faster comparing to the international forerunners.

"In a highly internationalized world the firms are probably more specialized" (Johanson & Mattsson, 1988). Consequently, the late starter has to have greater ability on customer adaptation, or a greater ability to influence the needs of target customers, the company's ability to influence might however stay in fairly low rates. Thus the timing has been seen as a basic issue in the analysis of network strategies.

The International Among Others

The last part in the Figure 1 (the lower right) describes the situation in which the internationalization level of company along with other market actors is high and in addition the internationalization degree of the surrounding network is significant. A further internationalization of the firm only means marginal changes in extension and penetration, which, on the whole, do not imply any qualitative changes in the firm (Johanson & Mattsson, 1988).

The company can penetrate and extend its operations into new international markets through already existing networks, or to use positions in one network for bridging over to other networks. According to Galbraith (1973), the international integration is required, not only in the hierarchical sense, but also in the decentralized sense. As extension takes place in a globally interdependent network, the driving forces and the challenges to this extension are closely related to this interdependence.

The reasons for network internationalization for the international among others are different to for example the early starters' resource foundation. Usually, the highly internationalized company seeks to maximize the efficiency of its production. This could mean for example that the operations in one market could make it possible to utilize production capacity for sales in some other geographical area. If the company has been integrated strongly on the international network the surplus capacity could be linked to the wider network. If the company decides to internationalize however through own sales subsidiaries, the penetration is probably speeded up by high internationalization, as the international knowledge level is higher and there is a stronger need to co-ordinate activities in different markets. When the business operations diffuse significantly the coordination places heavy demand on the organization (Johanson & Mattsson, 1988).

The strong international networks usually bring a possibility to international among other to achieve access on network partners' resources (external resources) and the increasing possibility to externalization (for example purchase components through network, rather than manufacture itself). According to Johanson and Mattsson (1988), such subcontracting is sometimes required by the actions of host governments, but may also be a way to make the multinational enterprise more effective. When the important customers or joint-venture partners expand their operations to new markets the international among others is faced with opportunities for further extension or penetration in these countries along its partners.

As the international among others definition illustrates, the company faces mainly international counterparts and competitors in markets that are rather tightly structured. The main international entry-modes and cooperation strategies in this market position are for example joint ventures, acquisitions and mergers. Usually, the driving forces and the restrictions of the internationalization entry modes are related to the strategic use of network positions (Johanson & Mattsson, 1988).

As a summary, the internationalization through networks is especially worthwhile for small and medium-sized enterprises, because the entry-mode does not require that much tangible assets. Usually, SMEs do not have the resources, which are needed in internationalization through for example FDIs. A basic assumption in the network model is that the individual firm is dependent on resources controlled by other firms. When engaging in international activities it is important that the access to these external resources is secured (Holmlund & Knock, 1998).

Especially the host-country knowledge is meaningful advantage for SMEs because usually it is hard to get access into the data sources versus its larger competitors. According to the research by Holmlund and Knock (1998), the entrepreneur relies heavily on his or her social contacts searching for information. For a business leader in a SME it is therefore essential to create and maintain both strong and weak relationships to other individuals. The view on industrial markets implies that there are strong interdependencies between different sections that are national networks as a part of the wider global networks. This clarifies the need for operation integrations.

2.7 Born Global Firms-model

The fourth internationalization model represented is the born global firms-model. Since Johanson and Vahlne's (1977) pioneering study on the internationalization process of the small companies much research has been addressed how small companies pursue internationalization. Many researchers, like Anderson (1992), Barkema *et al.*, (1996) lean on the idea of internationalization process of the small firms to a series of progressive stages. Recently however, McDougall and Oviatt (1994) proposed that at least some small companies are international (that is involved in significant cross-border business activities) at their inception.

McDougall and Oviatt (1994) defined international born global-firm (new ventures) as "a business organization that from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries". These start-ups often raise capital, manufacture and sell products on several continents, particularly in advanced technology industries where many established competitors are already global. The focus is on the age of companies when they become international, not on their size. These born global-firms begin with a proactive international strategy; they arrange strategic alliances because they do not necessarily own foreign assets. Thus, born global-firms with limited resources may compete successfully in the international arena. Case studies have witnessed that the success of international new ventures seems to depend on having an international vision of the company from inception; an innovative product or service marketed through a strong network and tightly managed organization focused on international sales growth (Jolly *et al.*, 1992).

McDougall and Oviatt, (1994) created theoretical framework for the born global-firms. The framework is based on transaction analysis, market imperfections and the international internalization of essential transactions to explain the existence of the SME. The framework includes recently developed ideas from two aspects: 1) entrepreneurship scholars, how ventures gain influence over vital resources without owning them, and 2) strategic management scholars, how competitive advantage is developed and sustained. The first three elements define the necessary conditions for the existence of an international new venture: internalization of some transactions, extensive use of alternative transaction governance structures and some advantage over indigenous companies in foreign locations. Through the fourth element, unique resources, the new venture achieves possibility on sustainable competitive advantage in international arena.

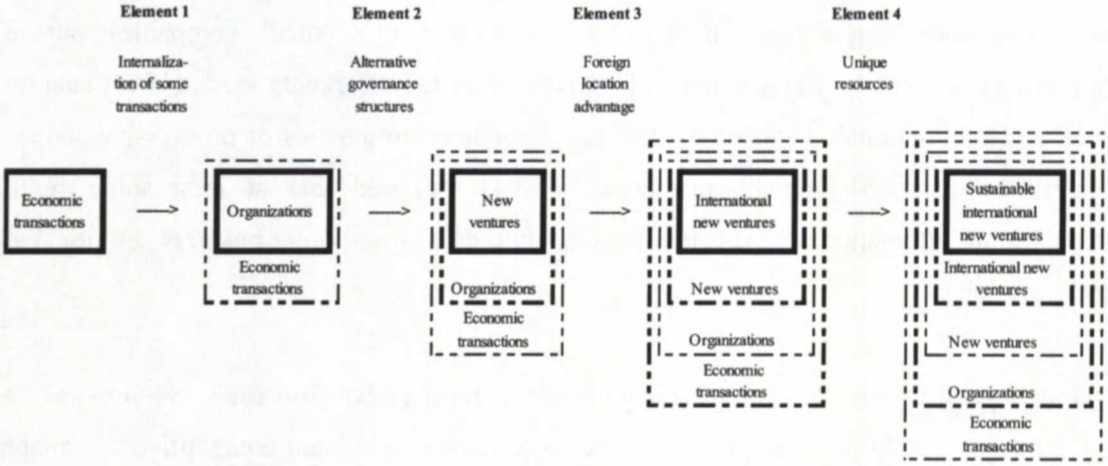

Figure 2 The necessary and sufficient elements for sustainable international new ventures (McDougall and Oviatt, 1994)

Element 1: Internalization of Some Transactions

The framework begins with the box at the upper left; internalization of some transactions distinguishes transactions that take place in organizations from those that are governed by markets. The internalization element is most basic and is clearly part of traditional MNE theory. It is the defining element of all organizations, whether new or established, domestic or multinational. Dunning (1988) stated that when the transaction costs of constructing, executing a contract and monitoring the performance of the contracting parties are at their lowest in an organization, the transaction is said to have been internalized within an organization.

Element 2: Alternative Governance Structures

The minimal use of internalization and the greater use of alternative transaction governance structures are features, which distinguishes new ventures from established organizations (Vesper, 1990). Due to new venture's poverty of resources and power, they may even use such structures (for example networks) when the risk of asset expropriation by hybrid partners is high. New ventures commonly lack sufficient resources to control many assets through ownership. The result is that new ventures tend to internalize or own a smaller percentage of the resources essential to their survival than do mature organizations.

Element 3: Foreign Location Advantage

The third element distinguishes the subset of transactions constituting international new ventures from those that constitute domestic new ventures. Firms are international especially because they find advantage in transferring some moveable resources across national borders to be combined with and immobile, or less mobile, resource or opportunity. As noted earlier, companies have often relied on the advantages of scale to overcome such obstacles, while international new ventures must usually rely on other source of advantages (for example private knowledge) (Rugman, 1982). In addition, the enterprise has to be conscious about the possible entry barriers, such as governmentally instituted barriers to trade and business practices.

Element 4: Unique Resources

The fourth element differentiates the subset of sustainable international new ventures from those likely to be short-lived. Sustainable competitive advantage for any company requires that its resources are unique (Barney, 1991). Unfortunately, for the knowledge-based international new venture, knowledge is at least to some degree a public good. Its easy dissemination threatens the company's revenue-generating opportunity, because knowledge may not remain unique for long. Thus, the ability to reproduce and move knowledge at nearly zero marginal cost is a simultaneously beneficial, still being at the same time fairly troublesome property. The international new venture must limit the use of its knowledge by outsiders; this strategic movement can be executed by four conditions (McDougall & Oviatt, 1994): 1) direct means, like patents, copyrights, or trade secrets, 2) imperfect imitation, 3) licensing, and/or 4) network governance structures.

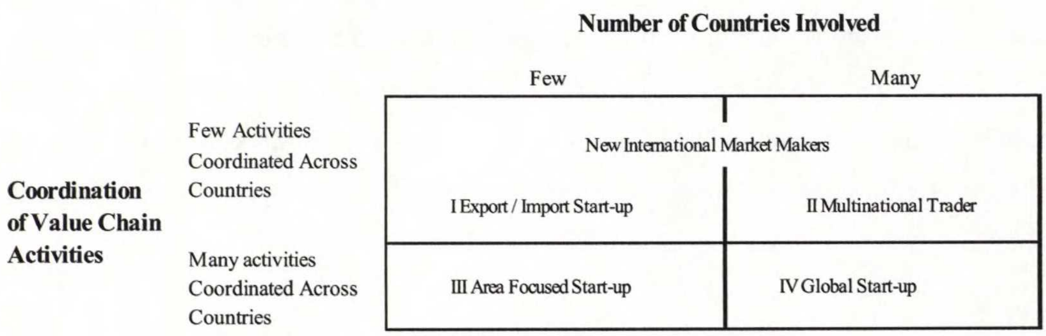

Figure 3 The different types of international new ventures (McDougall and Oviatt, 1994)

McDougall and Oviatt (1994) described and divide four different kind types of international new ventures (see Figure 3. above). Some venture actively coordinates the transformation of resources from many parts of the world into outputs that are sold wherever they are most highly valued (McDougall & Oviatt, 1991). Other international new ventures are primarily exporters that add value by moving outputs from where they are to locations where they are needed (Ray, 1989). There are different types of international new ventures that may be distinguished by the number of value chain activities that are coordinated and by the number of countries entered. There are particular types of companies at the extremes of the two continuums, but mixed types certainly appear in between, and over time new ventures may change type by coordinating and operating in additional or fewer countries. The horizontal dimension in the Figure 3, describes the number of target countries in which any value chain activities of the company may occur.

New International Market Makers (I & II)

McDougall and Oviatt (1994) describe the new international market makers as a timeless type of companies. The companies, which are situated in the upper left at the Figure 3 profit from moving goods into areas where they are demanded. In these new ventures the most used internationalization strategy is internationalization through the systems and knowledge of inflow and outflow logistics (for example importing/exporting). Other similar types of companies activities are likely to be governed by alternative structures (for example network). For new international market makers, the achieved competitive advantage depends on: 1) unusual abilities to spot and act on emerging opportunities before increased competition reduces profits in markets they have previously been established, 2) knowledge of markets and suppliers, and 3) the ability to attract and maintain a loyal network of business associates. As it was showed upper right in the Figure 3, the multinational trader can be also classified as new international market makers. When export or import companies operate within familiar areas, the multinational traders serve an array of countries and are constantly monitoring for business opportunities achieved through their networks or where they can quickly be set up.

Geographical Area Focused Start-ups (III)

The lower right quarter in the Figure 3 shows the geographical area focused start-ups, which are commonly derived to internationalize to achieve advantages by serving well the specialized needs of a particular region of the world through the use of foreign resources (for example alliances or joint-ventures). The difference between the multinational trader and geographically focused start-ups is that the latter one is geographically restricted to the location of the specialized need, and internationalize with more versatile strategies. The main differ to export/import start-ups is only in the latter respect. Thus, the geographically focused start-ups achieve competitive advantage in the coordination of multiple value chain activities, such as technological development, human resources, and production. The competitive advantage might become as a sustainable one, since the particular strategy is complex from the socially aspect and, usually involves tacit knowledge. These advantages may be protected by a close network of alliances in the target geographic area (McDougall & Oviatt, 1994).

Global Start-ups (IV)

The lower left quarter in the Figure 3 shows the case of global start-up, this internationalization strategy is the most radical mode of the international new ventures because it derives significant competitive advantage from extensive coordination among multiple organizational activities from geographically unlimited locations (McDougall & Oviatt, 1994). These companies derive to act proactively on opportunities to acquire resources and sell outputs wherever in the world they have the greatest value. Global start-ups may be the most difficult international new ventures to develop because they require skills at both geographic and activity coordination. However, once successfully established, they appear to have the most sustainable competitive advantages due to a combination of historically unique, causally ambiguous, and socially complex inimitability with close network alliances in multiple countries.

At first place, the born-global firms model was formed for explain the internationalization of large MNEs. Practice however has shown that those companies are mostly too complex and bureaucracy to be established at their inception in international markets. The born global-firms model is interesting strategic option for SMEs. This particular strategy has emerged thanks to technological innovations, the possibilities of light organization structure and increasing number of people who have international business experience, vision and knowledge (McDougall & Oviatt, 1994). When referring to the innovations and sustainable born global-firms it is good to remember that smaller companies are better at creating radical innovations because they protect the innovator's property rights better than their larger competitors (National Academy of Engineering, 1995). SMEs are more adaptable and have quicker response times when it comes to implementing new technologies and meeting specific buyer needs (Verity, 1994). As it was mentioned in the network section, internationalization strategies, which do not require significant amounts of resources, are more suitable strategies for small and medium-sized enterprises. International new venture comes under this 'low resource' strategy group: it does not require a lot of (tangible) resources, but it requires knowledge, especially the innovation to be sustainable.

2.8 Summary of Theories

In this literature review I have explored internationalization theories established since 1970's. There have been significant differences in the basic thinking behind these models. Some of the models lean on the economics, while the others, like the network model and international new ventures, are more business-minded ideologies. Internationalization theories have developed through the decades to fulfill all the needs of today's market pressures. Like in many other business areas, there is no one certain perfect model solution for all cross-border situations. In addition, every company and every business situations have special characteristics and needs, which have to be taken account. In case of many SMEs the common internationalization theories are implemented with small differentiation compared to large enterprises. The characteristics of SMEs such as limited financial and managerial resources, personalized objectives of owner/managers indicate that global strategies of small firms may differ from those of larger firms (Cavusgil, 1980).

I have identified, defined and described the four different internationalization theory lines, aiming to answer the following questions: which of the theories aim to describe the SMEs internationalization and how. First I started with the concepts based on economic theory; the decision-making model by John Dunning (1980; 1988). This eclectic paradigm emphasizes the role of production in the operations of MNE's and SME's from the aspects of ownership advantage, location advantage and internalization advantage. Enterprise will establish production activities in location where factors mentioned above exists.

The second internationalization theory represented the stage theories. I explored the Uppsala Model by Johanson and Wiedesheim-Paul (1975). Uppsala model was created to explain the internationalization of the enterprise as a process, which progress by different learning and motivation stages. The model has received a lot of criticism of its limited flexibility; however it is still the most recognized internationalization models for SMEs. We have to remember that the markets have changed significantly from the 70's and 80's as a result of for example technological innovation, and thus the requirements for businesses have also developed to new directions (Andersen, 1993).

The third internationalization theory-line was network model presented by Johanson and Mattsson (1988). Network model explains the internationalization of enterprise as a process like the stage theories, but in this model the development and stages in international trade comes through business relationships via international networks. This model fulfils the SMEs requirements at the moment in international business more successfully than the models listed above.

The fourth internationalization theory was the international new ventures (born global firms) by McDougall and Oviatt (1994). The main idea in this model was that enterprise is international from its inception and it might not go through several stages presented in other internationalization theories. The base focus in the model is on the age of firms when they become international, not on their size. Recent technological innovations and the presence of increasing number of people with international business experience have established new foundation for SMEs, so called born global firms.

The advantage thinking (concepts based on economic) should be always presence at every business operations, whether they were SMEs or large multinational enterprises. Internationalization through stages (Uppsala-model) is still quite common strategy choice from domestic SMEs (Andersen, 1993). Of course it is very industry specific question, but in most cases enterprises start operation in domestic markets, then expand its operations to neighboring-countries and after that to other market areas. However, for example business services or some other IT-based niche industries, where the international intellectual property plays pivotal role compared to other resources, domestic markets may not offer enough demand and/or competition, and thus they should be viewed in quite a different light compared to traditional brick-and-mortar industries. The new ventures in these circumstances have a good possibility to start their operations straight in international markets as born global firms without stepwise progress (Jolly *et al.,* 1992; McDougall & Oviatt, 1994).

Table 2 The summary of the internationalization theories

Internationalization Theory Summary	SME aspect	MNE aspect
A. Concepts Based on Economic Theories *Decision-making model (Dunning, 1980; 1988)* This model describes the enterprise's motivation to internationalize its operations from economic factor aspects. Ownership, location, internalization, time scale and relationships are the main factors, which should be examined before internationalization.	1. In 1980's the model was formed to answer the internationalization questions of SMEs (exporting, contractual joint ventures). 2. All the factors which are examined in this model are important for both SMEs and MNEs (the enterprise's size does not matter).	1. Model was created at first place to describe MNE's internationalization process and decision-making (FDIs).
B. Stage Theories *Uppsala model (Johanson and Wiedersheim-Paul, 1975)* This model describes the enterprise's internationalization as a slow process from domestic market on country-to-country. As the international business knowledge increases the enterprise comes ready to try new market areas.	1. The stage models are most used internationalization explainers by SMEs. 2. This model however, has features that do not fit in with SME's requirements. The stages demand too much tangible assets and they are concretely too extensive (subsidiaries, manufacturing plants).	1. The Uppsala model is common stage model used by MNEs, because it includes features that are common for larger enterprises.
C. Network Models *Network model (Johanson and Mattsson, 1988)* The network model explains the enterprise's internationalization as a process, but in this case the progress happens through international networks and relationships between market actors.	1. This model describes the internationalization process successfully from SME's aspect . 2. The tangible asset requirements are at low level and there is possibility to join in the other network actors' asset-base (knowledge, commercial relationships and raw materials).	1. This model is useful also for MNEs, but they usually have assets on their own. It is not so vital for them to achieve alliances than to SMEs.
D. Born Global Firms-Model *International New Ventures (McDougal and Oviatt, 1994)* This model does not lean on stepwise progression in enterprise's internationalization, but internationalization which exists from enterprise's inception . These new ventures begins with a proactive international strategy, they use alliances and networks in their implementation worldwide.	1. This model fits especially for SMEs. 2. The innovative operations, light management- and asset structure makes this strategy possible to implement.	1. This model is also used by MNEs, but because of the scale aspect of business and bureaucracy, they are usually forced to start the internationalization through the stages.

The strategic options available for the SME can be followed by acting independently (competitive strategies), or by acting cooperatively with other firms (cooperative strategies). D'Souza and McDougall (1989) suggest that cooperative strategies are not frequently adopted strategies by small firms. However, Shan (1990) propose that for small firms cooperative arrangements are good modes of commercializing products in foreign markets and overcoming resource scarcity.

Luostarinen and Welch (1990) characterize the internationalization of SMEs to be fairly complex and diverse strategic decision. On the one hand, in the early stages of internationalization, it is more difficult to achieve even reasonable international penetration without using intermediates in some form, domestic or foreign. On the other hand, the more complex the product, and the greater the need for product adaptation, the more difficult it is for outsiders to the company, without specific knowledge, to be effectively utilized.

According to the literature review, I found that the most suitable internationalization theories for SMEs are the network model and born global firms-model. SMEs internationalization is usually depending on all kinds of resources; assets, finance, management time, personnel to mention a few. Strong business relationships in international and national networks, gives good possibility for SMEs to utilize network partners resources (tangible and intangible assets), which are needed for SMEs' internationalization. Also, the born global firms-model gives competitive and innovative option for SMEs' internationalization strategy portfolio. Nowadays, more the business ideas of national enterprises stand the comparison with their international competitors; commercial know-how, international knowledge and innovative strategy enable the internationalization of SMEs at their inception.

Leaning on these theoretical founding in literature review, I will perform an empirical research to determine the closer use of network model and born global firms-model. The examination will lean on the research of two Finnish SMEs. The aim of the research is to test and analyze which of the internationalization theory framework factors the chosen case companies have kept important in their international expansion – and what has been the meaning of those particular factors behind the companies' internationalization decision-making.

3. Methodology

In the remaining parts of the study, I will present and test the main object of the research. The aim in this research is to find out, what network, and born global theory framework factors the selected case companies have considered important behind their internationalization decision-making. In chapter three, before the analysis of the actual empirical data, I will present the methodology of the study. The research methodology includes justifications for chosen research approach and description of the data collection and analysis methods. At the end of the chapter I will present the reliability and validity of data.

3.1 Research Design

In qualitative research the object is to picture and analyze of some event, or to understand some specific action or to give some understandable interpretation for some phenomenon, without making any statistical 'generalization' as it is in quantitative research (Eskola & Suoranta, 2001). Qualitative research, as opposed to quantitative research, comprises a variety of methods that can apply in a flexible manner to enable respondents to reflect and express their views or to observe their behavior. One of the limitations of the qualitative research is that it does not sample small differences as well as large-scale quantitative research. In addition, the qualitative studies do not provide samples that are representative of the target population of the research (Proctor, 2005).

The qualitative research is suitable especially for organization, group or individual research. By the definition, the qualitative research examines the attitudes, feelings, deep knowledge and motivations of research objects (Proctor, 2005). These academic suppositions, which I listed above, with the difficult research object, including finding out research objects' motivations, deep knowledge and unconscious factors, led me to choose the qualitative research perspective on the context of the study.

Multiple Case Studies

The depth information of this research phenomenon, has been achieved by qualitative multiple case studies. The main advantage of qualitative multiple-case study is its ability to provide full and in-depth insight into dynamic phenomena of organization. Case study is a good alternative in social science studies when the research question is form of how or why. The typical manner of case studies is their aim to find out something new from the topic, for example the situation when a little or none has been found in previous empirical studies (Erikkson & Koistinen, 2005).

The case study is suitable for this topic as a combination of the explorative and extensive case studies. The aim of the explorative case study is to provide with some new academic knowledge, ideas or theories. Extensive case study includes many cases simultaneously and compares the results to find some new knowledge of the phenomenon, which has been studied (Eriksson & Koistinen, 2005).

At the beginning of the research process I started from the exploration of the suitable case companies, which would fulfill the research requirements. After doing some unsuccessful company register search via national institutions, I end up asking two companies from my own social network to co-operate with me for this master's thesis. The aim was gather up two Finnish SMEs, which had internationalized into abroad quite recently. As the second criteria of the research were to find companies, which have used one of the following models in their cross border operations: network model or born global firms-model. In addition, one of the research criteria was naturally the approval from the case companies on the collaboration for this research.

3.2 Data Collection

I gathered the primary data for this study through semi-structured interviews within the case companies. The written company documents and annual reports were used as secondary data in this research. The theme structure of the interview questionnaire was based on the theoretical framework of this study. See the used questionnaire in Appendix 1.

Semi-Structured Interviews

In an interview, an interviewer uses clinical non-directional techniques to uncover hidden motivations. Semi-structured interview suites for studies, where the research object is some emotional sensitive area, or when the forgetfulness might generate defective answers, or if the interviewers are not used to discuss about the issues on a daily basis (Hirsjärvi, 1981). Semi-structured context of the questionnaire allows a little more choices during the interview. Like a structured, a semi-structured interviews also follow the same format and structure, but there are still more space for an open discussion, clarifications and additional information (May, 1993). Thus, a semi-structured interview offers a possibility to have a little more qualitative research and depth information, while the basic interview format is kept standardized.

The primary qualitative data for the research was gathered between late fall 2007 and winter 2008 by conducting semi-structured open-ended interviews on case companies. A total of 4 entire and 1 partial interviews of key persons were held between December 26th 2007 and February 15th 2008. This amount of interviews was seen sufficient per company, since during the second and third interviews a certain saturation of data had already developed. The interviewees represented top management positions: from the case company A; Senior Vice President (Information Resources), Vice President, and Solutions Manager; and from the case company B the two founders, the former Head of Sales and Marketing, and the former COO.

The interviews were carried out either as face-to-face discussion or telephone interviews. The interviews lasted approximately 55 minutes, and because of the linguistic advantage, all of the interviews were held in Finnish. In all cases, the interviews were recorded with a digital voice recorder, thus the interviewer could fully concentrate on listening to the interviewees and fill additional questions to further the understanding at the issue. After the interviews, the discussions were saved on computer and each interview was transcribed word by word to avoid any loss of data.

3.3 Data Analysis

There are some guidelines for analyzing the gathered interview materials; still there is a lack of widely recognized regulations for research analysis (Hirsjärvi *et al.,* 2002). However, by Sapsford and Jupp (2006), the process of data analysis produces the main claims that form the core of research reports. In addition, Hirsjärvi *et al.,* (2002) mentioned that the analysis of gathered material, interpretation and findings are the core issues in research.

The data analysis in qualitative research should be conducted from a certain theoretic point of view (Hart, 1991). In this study the internationalization theory framework led and guided throughout the research: in creating the semi-structured interview questionnaire, in the material gathering, in analyzing and research findings. Thus the theory framework provided a logical classification in organizing and analyzing the data. In this kind of framework analysis, the main idea is to conduct the information as exhaustively and systematically as possible, leaning on the particular theoretical framework (Hart, 1991).

The questionnaire of the research was build at first place to support the primary research and theoretical framework. After the preparation and study of the internationalization literature and academic debate, the empirical part of the research was implemented. During the interviews the questionnaires were conducted in a specific order, and additional point outs were made to deeper the interviewees' answers. Each of the interviews was recorded and transcript to text as soon as possible after the interviews. Before conducting the main analysis of this research, the gathered materials were listened and read through several times.

3.4 Reliability and Validity of Data

The same correspondence between the results and reality should be good and be the primary object in every research (Hirsjärvi *et al.,* 2002). Silverman (2001) points out how the questions of credibility of qualitative research needs to be taken seriously in order to fight off the critics and to function as a creator of valid knowledge. There are different measures and methods in evaluation of credibility of the qualitative research (Hirsjärvi *et al.*, 2002). The credibility of the research can be evaluated through two measurements: reliability and validity.

The aim of the reliability in research is to minimize the errors and incongruity. The research has a good reliability and the results are reliable if the answers and findings remain the same when someone else conducts the similar interviews in a similar context (Yin, 2003). The reliability of qualitative research involves detailed documentation of the research process, recording and transcribing literally and including direct quotes in the research report. A careful description of the research process of the study increases the reliability of the study (Hirsjärvi *et al.,* 2002)

Validity of the study is thought to be an even more important measure of the research quality than reliability (Jyrinki, 1977). If reliability was the measure of repeated study revealing the same findings, validity measures the correctness of those findings. The validity of research can be measured by internal and external validity (Eskola & Suoranta, 2001). The internal validity refers to the harmonization between the theoretical and conceptual definitions of the research. Internal validity points out researcher's academic aspect and his or her intensity to manage the disciplines. The external validity signifies the validity between interpretations, findings and validity of material. Some particular research discoveries are said to achieve external valid, when it describes the research object exact as it is (Eskola & Suoranta, 2001).

The theoretical validity has been increased by wide background search and familiarizing into the topic area, academic discussion and theories before the research. The interview questionnaire was strictly based on the two internationalization theory frameworks, which I clarified earlier in this study (see sections 2.6 and 2.7). When all the interviewees are in a similar situation and answering the same questions in the same order, the differences among the answers are more reliable (May, 1993). To enhance the reliability and validity, the same main structure was kept in each interview (semi-structure) and interview situations were kept as similar as possible. The basic themes were covered with several questions, thus the correctness of the interview answers were maximized.

In this thesis, I aspired avoid the errors by clear interview questionnaires. In addition, I selected the interviewees intentionally from the management positions, thus they had the knowledge of the strategic decision making of the case companies. All interviewees were business specialists, and they felt familiar with concepts and terminology of the questionnaire. There was possibility for interviewees to familiarize with the themes of the study before the actual interview. However, to ensure the most natural preparation of the interviewees, I revealed the original questionnaire at the first time at the beginning of the interviews. To clarify and justify the research conclusions, I have used extensively the interview quotations from the case company interviews.

4. Propositions

In this section I will explain the propositions of the research. The propositions are based on the internationalization factors defined for the two specific internationalization models; network model (by Johanson & Mattsson, 1988) and born global firms-model (by McDougall & Oviatt, 1994) (see Table 1). Thus, the proposition assumptions are based on the existing academic literature and discussion from on various case company researches across international markets and observations by several authors.

I. *The international vision from companies' inception is pivotal explanatory factor for the use of born global-firms model.*

II. *Network enterprises internationalize abroad through a process (stages).*

III. *International business knowledge and know-how are significant furtherance factors for internationalization of born global enterprises.*

IV. *The participation on business networks or partnerships during enterprises' internationalization is pivotal advantage for network, and -born global enterprises.*

V. *Network, and -born global enterprises internationalize abroad to achieve some competitive advantage.*

VI. *The industry pressure is semi significant explanatory factor for the internationalization of born global enterprises.*

VII. *The lean organization structure enables the use of born global-firms model.*

Proposition 1. According to the definition by McDougall and Oviatt (1994) born global enterprises seek to drive significant competitive advantage from the use of resources and the sale of outputs in multiple countries from its inception. The fact that born global enterprises are international from inception implies that some decision must inevitably be made about when inception occurs. Much has been written in the entrepreneurship literature concerning the point at which a new venture is considered to exist as an organization. McDougall and Oviatt (1994) believe that for new ventures that have no sales because their product or service is under development, there must be a demonstrated commitment to sell the output in multiple countries upon completion of development.

Proposition 2. Network models explain enterprise's internationalization as a process (see chapter 2.5 stage theory by Johanson & Wiedersheim-Paul, 1975), where enterprise create and develop business relationships with other parties through international networks (Johanson & Mattsson, 1988).

Proposition 3. The presence of increasing numbers of people with international business experience who can attract a moderate amount of capital, can conduct businesses geographically anywhere in a short period of time. Many case studies have shown that a success of international new ventures seems to depend on having an international vision, an innovative product or service marketed through a strong network, and a tightly managed organization focused on international sales growth (Jolly *et al.,* 1992; McDougall & Oviatt, 1994).

Proposition 4.

A) The industrial system is composed of firms engaged in production, distribution and use of goods and services. There is a division of work in the network, which means that firms are dependent on each other and their activities therefore need to be coordinated. Through the activities in the network the firm develops relationships, which secure its access to important resources and the sale of its products and services (Johanson & Mattsson, 1988).

B) Born global enterprises begin with a proactive international strategy. Strategic alliances may be arranged for the use foreign resources, thus they do not necessarily own foreign assets (McDougall & Oviatt, 1994). The born global firms' resources are usually constrained by the young age and by the small size. Thus, born global enterprises a powerful resource-conserving alternative to internationalization is the network structure (Larson, 1992).

Proposition 5. The common emphasis on organizational scale is an important competitive advantage in the international arena. Changing economic, technological, and social conditions have in recent highlighted additional sources for creation of competitive advantage. Dramatic increases in the speed, quality, and efficiency of international communication and transportation have reduced the transaction costs of multinational interchange (Porter, 1990). Furthermore, the increasing homogenization of many markets in distant countries has made the conduct of international business easier to understand for everyone. Also, international financing opportunities are increasingly available and human capital is more mobile.

The definition for competitive advantage by Michael Porter (1990): "The Competitive advantage is a position that a firm occupies in its competitive landscape. The competitive advantage, a form of sustainable or not, exists when a company makes economic rents, that is, their earnings exceed their costs (including cost of capital)". Most of the competitive advantage forms cannot be sustained for long because the other market competitors can repeat the concept, and thus invalidate the competitive advantage held by one firm. A firm holds a sustainable competitive advantage when it has value-creating processes and positions that cannot be repeated by other market competitors. A sustainable competitive advantage is different from a competitive advantage because it provides a long-term advantage based on unique business competences (Porter, 1990),

A) Internationalization through networks gives SMEs access to their partners' resources, tangible and intangible assets, especially on host-country knowledge (Holmlund & Knock, 1998). Network partners engaged also in production, distribution and use of goods and services. Thus, the achieved competitive advantages from internationalizing through this model can entail variety of assets and systems for a company (Johanson & Mattsson, 1988).

B) Born global seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries. Because born global enterprises are usually small organizations, thus the economies of scale, is an inappropriate explanation (McDougall & Oviatt, 1994). Internationally sustainable competitive advantage is increasingly recognized to depend on the possession of unique resources (Barney, 1991).

Proposition 6. Many of the born global studied were in high-tech businesses, and smaller amount in other sectors for example services and even aquaculture (McDougall & Oviatt, 1994). The technological development in IT sector at recent years has probably increased the possibilities of knowledge intensive born global enterprises, but it could also be a pressure factor for internationalization (Reich, 1991).

Proposition 7. At first place, the born global firms-model was formed to explain the internationalization of large multinational enterprises. Practice has regardless shown that those firms are too complex and bureaucracy to start up at their inception. Thus the lean organization structure option of small organization can enable the use of born global model (McDougall & Oviatt, 1994).

Table 3 The summary of the theory framework variables and the importance levels

Framework variables of the modes	Network Model	Born Global Firms-Model
I. In which part of enterprise's lifecycle, the internationalization decision is made	-	**
II. Internationalization is seen as a process	**	-
III. The significance of international business knowledge and know-how	-	**
IV. The significance of used alliances and networks with other market participants during internationalization	**	*
V. Internationalization is implemented for achieving some competitive advantage	**	**
VI. The significance of the industry pressure behind the internationalization	-	*
VII. Use of light organization structure enables the use of this internationalization strategy	-	**

- Means that there is no relation between the internationalization of enterprise and the theory framework factor.
* Means that there is semi-significant relation between the internationalization of enterprise and the theory framework factor.
** Means that there is significant relation between the internationalization of enterprise and the theory framework factor.

5. The Internationalization of Finnish SMEs Through Network Model and Born Global Firms-Model

At the first part of this chapter the selection of the case companies will be described, with more detailed case company descriptions. In the second part of this chapter, I will go deeply into the interview materials and quotations, following by the analysis and main findings. The third part of this chapter will reveal research findings, which were not mentioned in the theory framework and nor the research propositions. The last part will include the summary of the research findings.

5.1 The Selection of Case Companies

The case companies were chosen so that they would each represent different internationalization model. These particular models were studied closely in chapters 2.6 (network model) and 2.7 (born global firms-model). Enterprise A represents and gives an empirical evidences from the use of network model and enterprise B represents born global-firms model.

The aim was to gather up two Finnish SMEs, which had internationalized recently. The basic assumption in this study is to concentrate on internationalization of small and medium-sized enterprises. Secondly, as it was mentioned above, the case companies were selected to represent the particular models. In addition, one of the research criteria was naturally the approval from the case companies on the collaboration for this research.

The Case Company A

The case company A represents the empirical evidence of the use of network model during the company's internationalization. This market intelligence company was found in 1995; however the business plan and the vision were totally changed at the end of 1999 and during 2000. I will concentrate on those moments when the business idea and internationalization strategy was decided and implemented from the beginning of 21^{st} century.

The case company A, the market intelligence company was originally found in 1995. The head office was located at first place in Helsinki. During its' first years it concentrated only on smaller ad hoc projects of fairly small customer base. At the end of 1990's the business plan was changed to base on particular growth strategy. Nowadays, the company concentrates on a providing of market intelligence services with the technology platform, for domestic but in significantly into foreign markets.

Table 4 The summary of the key financial metrics of the case company A between 2002 and 2005

The Case Company A	2002	2003	2004	2005
Period	Jan 02 - Dec 02	Jan 03 - Dec 03	Jan 04 - Dec 04	Jan 05 - Dec 05
Net Sales (€)	1,858,564	2,105,935	3,141,372	3,520,391
Balance Sheet (€)	597,113	988,648	1,358,636	2,011,632
Average Nro of Employees		34		49
Full Time		31		32
Part Time		3		17

The company operates in professional service industry, focusing on the market intelligence services. The business idea of the case company A is to generate additional value for customers by producing them tailor-made market research and analysis services with the software tools. The main product package is created from three different principals: 1) market monitoring concept that combines an optimized information source portfolio, a customized web interface, and professional analyst resources to monitor the external operating environment of customer's organization; 2) the software: a sophisticated tool to automate routines and bring structure to customers' intelligence operations; and 3) the research and analysis: this part of the case company A's service, will support the strategic and tactical decision-making of its customers.

The company has created its own brand for wider international partner network. Through this extensive partner network, the case company A receives an access into more than 100 countries' local research and information sources. The main target customer group is mid-sized enterprises from all geographical divisions: who do not have own analyst development, but still have financial possibility to purchase this market intelligence service package.

The Case Company B

The case company B represents the empirical evidence of the use of born global firms-model. This mobile game developer was established at the end of 2004 in Helsinki. As the case company B has been global from its inception, the internationalization process has to be seen a bit differently comparing the common definitions. The research concentrates especially into business events from the end of year 2004 to the mid 2006.

The case company B operates in the international gaming industry. The case company B is a European mobile and wireless game developer that focuses on publishing its games directly, thus it is called as a mobile content developer. It co-operate with its' partners to broaden the distribution network in international markets. The company has aimed to achieve high growth rates since its establishment. There were lots of risks related into the establishment and businesses operations of the company, but it has shown to be one of those sustainable born global firms, which has created something unique into the international markets. Because of the case company B's high risk business model, the primary financial support have been achieved from international equity investor. The case company B has taken part also one of the born global firm projects of Finnish Funding Agency for Technology and Innovation in 2005 (TEKES).

Table 5 The summary of the key financial metrics of the case company B between 2004 and 2006

The Case Company B	2004	2005	2006
Period	*	Jan 05 - Dec 05	Jan 06 - Dec 06
Net Sales (€)	NA	116,796	748,284
Sales by Areas:			
Domestic Market	NA	27,363	62,056
The EU- area	NA	0	522,813
Outside The EU-area	NA	89,433	163,414
Balance Sheet (€)	9,720	381,504	1,191,865
Average Nro of Employees	7	25	43

*The case company B was established in the beginning of November 2004.

The main business market area for the case company B is the Central Europe, but the business is widely recognized also outside the Europe. The customer base of the case company B is mainly European telecom operators, global intellectual property right (global IPR) owners and original equipment manufacturers (OEMs). The cooperation between company B and its customers aim to fulfill the product range (for example operators) with unique and high-quality mobile content services. On the other hand, company B has achieved benefits from access into customers' networks and resources, especially into already existing customer relation networks. Another vital feature for the use of born global firms-model has been the already existing and settled industry networks and close relations to their target customers before the company was even launched.

5.2 Analysis

In this part of the chapter, I will concentrate into the propositions set up in the chapter four, the gathered interview materials and the main analysis.

5.2.1 International Vision at Inception

Case company B was established in December 2004. From the key founders' aspect, the establishment of case company B was based on spin off activities with other small mobile game company. This strategic decision was made to achieve even quicker establishment process of the case company B. The development of company's products was started at the end of the year 2004. The first customer contacts took place in the beginning of 2005. The most concrete and important movement towards international markets was taken in March 2005, when the founder of the company participated in one of the main events in gaming industry: The Game Developers Conference in San Francisco, United States. In the event the founders met relevant interest groups in gaming industry from the United States and Europe.

"I remember that we got our business cards from the print one day before the conference and the name of the company was not even confirmed from the National Board of Patents and Registration when we started to hype up and market the company – positioning the company into international markets."

Company's products were immediately directed to global markets and this was the starting point for the whole business idea. The documentation language has been English since the founding of the company. Essentially case company B did not have so called internationalization before its foreign market operation: it was international at its inception. Even if the head office has always been in Finland the business focus has been directed into Central European and U.S. markets. The domestic operations were performed much later during the first year and because of non-business goals. One of the most significant non-business goals was the will of game designers to represent their artistic performances and throughputs for their Finnish acquaintances. Key customer groups, partners and other market players in the gaming industry operated however in other than domestic markets. Thus the operations of the company had to be directed immediately towards foreign markets.

"It was never even mentioned that we would have started to create something for Finnish in Finland...the products are developed and directed into market areas where the real demand exists."

Mobile games can be defined both as software and entertainment products. The development costs of games are considerable and it is vital to achieve enough demand for the end products. In the business plan the development process was calculated to take approximately four months per game. In addition, the distribution channel structure of the gaming industry is long and complex: the realization impact on cash flow can take even six month since the game was published. The product lifecycle from the starting point till the inward cash flow might take even 10 months, thus the process ties a lot of working capital and risk for a very long period.

The product development started immediately after company was founded, which meant that the mapping of potential future customers had to be done already during the business planning. The first distributive contract was made during the July 2005 approximately seven months after the company was established. The games were at the demo level during the contract time, and the first mobile games were completed at the August 2005. The effect on cash flow came during November 2005.

The following factors forced the company to internationalize at its inception. First, the domestic markets of the company would not have been large enough to cover the large fixed costs required in game development. Even if everyone in Finland would have been a potential customer and would have purchased the game into their mobile phones. Secondly, the mobile phone base, the technological platform for which the games were developed for, were

undeveloped in Finland compared to wider European markets according to the company. This was largely caused by the legal restriction in selling mobile phones and subscriptions in bundles, which effectively limited the demand for higher end handsets. In international markets the customers' mobile phones were often renewed and this meant that the potential customer base was wider in these markets giving scale advantages to the case company B.
"During the start of company almost all the competitors were young as we were. The oldest game developer companies were approximately three years old. That gives you perspective for this industry – and the age concept overall."

"The meaning of early establishment into foreign markets and the age questions are invalid when all the market players are young. On the one hand, it is not a barrier for a company to be young amongst other young companies, but on the other hand it does not offer any advantages either."

According to the case company B the age as a standalone factor was not significant motivation factor behind the decision to internationalize. However, the decision to start immediately the international operations was conscious strategic choice for the case company B. The key persons felt that the establishment of the company and its immediate internationalization was a sum of their own strategic choices and confronted pressure from the gaming industry. Thus, the proposition 1, settled in the chapter four, can be accepted. This research finding supports the assumption, that the international vision and operations from companies' inception are significant explanatory factors for born global operations.

5.2.2 Process Internationalization

The case company A was established in 1995 in Helsinki, Finland. Since then the head office has located at the same city. For a long time the case company concentrated on small ad hoc projects in domestic markets, and the main international research and fieldwork was done by company's key persons individually. The international operations were very occasional, until the new business vision in year 1999-2000. From the beginning of 2000, the research customs were changed, and since then the research work was done from head office via electronic information systems. This new business model however meant that the case company A needed partners or some other methods to fill the local information requirements from different geographical areas.

"We have expanded into the most important geographical areas through partners, but also through our own agencies and acquisition."

According to the case company A, there have been a few development periods in construction the network. At first, the need for network partners were project based, and the network development was not scripted in advance. The cooperation with international partners was occasional and the networks were used mainly on achieving some local information relating ad hoc projects. The development of the network has not been tied on any beforehand designed geographical expansion routes. The primary network partners have been located in Germany, Holland, Italy and other Nordic countries. Thus, the initial geographical expansion of the network has been mainly European based.

In 2003, the case company A got an investor to finance the future development of the company. It was 2003, when the decision to develop proactively of own extensive and congruent network was made. The case company A employed a network specialist from Sweden during the same year, and his main duties have been since to seek and explore the potential network partners and create an effective cooperation network. Since 2003 till 2006, the network of the case company A had expanded into all the most important geographical areas. There are now almost 80 cooperation research actors in the market, who could offer the local information for the case company A.

At the present moment, the case company A has aspired to realignment the whole networks, and probably settle some whittle downs among its insufficient network partnerships. The case company A wants to maintain, develop and concentrate on the collaboration with the most important partners and deepen the collaboration with them. The aim is to tighten the harmonization process between the case company A and its partners in the aspects like business operations, brand management, etc.

According to the interviews, the internationalization strategy exploited by the case company A, is more like hybrid entry model than pure network model. This means that there has been variety of entry modes, for example acquisition and greenfield operations. All of the three entry options have been used in areas where they have suited best. In the next few sections I will concentrate on the analysis of the case company's acquisition and the greenfield operations. At the end I will summarize the gathered results.

The case company A collaborated with one of the small network partner, which located in Toronto, Canada. In addition to the common research partnership the network partner wanted to start reselling the software product of the case company A in 2001. The local business was successful and in 2003 the case company A and the reseller decided of the deepen collaboration in form of acquisition. Thus, the first concrete internationalization step was taken far from the domestic market.

The next internationalization step was taken into neighboring area, to London, United Kingdom during 2005-2006. In addition the New York office was established in 2007 in United States. These two offices have been established without network supports, thus these international activities represent the greenfield establishments of the case company A. According to the case company A the previous two geographical positions are mainly agencies and thus the main work concentrates on sales and customer relations.

The latest finding and collaboration partner is located in Mumbai, India. The case company A started its collaboration with Indian partners because the advantages of off shoring actions. The off shoring means, that a company can relocate some of its human intensive processes into areas, where the human resources are cheaper and overall more cost effective.

"From the geographical aspect, company's internationalization has been as a yo-yo, first was Helsinki, and then came: Toronto, London, New York and Mumbai."

Summarizing the gathered information above, the internationalization of the case company A has been diverse and has been implemented through many levels. The internationalization into new market areas has included three kinds of entry modes: acquisition, network, and own agencies. The international network itself has been built because of many business motives, and this perspective occurs especially in the differences between network partners. The different entry-modes have been chosen after the evaluation and consideration of the individual characteristics of the target markets and naturally after deliberating the business targets of the case company A. According to the case company A, the construction of company's network and other entry-modes have been indiscriminate and there has not be the development features described in process model by Johanson and Wiedersheim-Paul (1975) (see the further explanation in chapters 2.5 and 2.6)

According to the interviews I can make the conclusion that the case company A does not support the proposition 2, settled in the chapter four. The research finding strengthens the supposition that the network company does not necessarily develop its surrounding network through the process mindset. This means that the internationalization operations are directed from the beginning, where the real need is, and not internationalize into a neighboring area for the first thing to achieve experiences and knowledge of international business as presumed in stage model.

These results can be affected by the hybrid internationalization strategy of the company, thus the company has not internationalized solely through network model. The empirical findings however showed that the internationalization development through own agencies and acquisition has not been process based either. Secondly, the market intelligence industry, in which the case company A operates, can affect on the gathered results. This business service industry is knowledge-intensive, and mainly IT based. Usually, the required information are purchased and analyzed via electrical information channels and networks. Thus the geographic aspect in the internationalization of the case company A is mainly irrelevant measurement. The assumptions built in the network model by Johanson and Mattsson in 1988, were mainly based on basic industries, in which the geographical aspects were more concrete.

5.2.3 International Business Knowledge and Know-how

As mentioned at 5.2.1 the founding of the case company B was based on spin off from another small mobile game company. In addition, the rest of the key persons were head hunted from other Finnish gaming companies. According to the company, this had to be done because there were no resources and time to start the education process of personnel. Summarizing the issues mentioned above, the case company B had a lot of existing knowledge, know-how, contacts (formal and informal), and international view on the gaming industry businesses at the inception of the company.

"The operator channel of the gaming industry was substantially closed from the aspect of new competitors at that time. Thus, the already existing contacts and competence of our sales department opened doors and secondly helped us to achieve information from the target customers, end customers and their likes."

According to the interviews, the situation described above meant that there would not have been even possibility for generic experience and growth in the international gaming industry during that time. Thus, the relevant international information and know-how of the case company B were secured by headhunting the key personnel.

"If we would not had had this competence inside the company at its inception the implementation of this business model would had been extremely difficult - probably impossible."

According to the case company B, the international operations are easier to start if company has already existing international knowledge and contacts from its inception. It might not be as vital competence in all industries, but it is unquestionably important characteristics in the gaming industry businesses. Summarizing the previous statement; the combination of born global firm without international knowledge can fairly soon lead into some kind of complications.

"It is much easier to develop some product into German's market, if you have the particular market knowledge and you are familiar with the German actors."

According to the case company B, the gathered information concerning the relation between international knowledge and know-how and the internationalization of case company B is significant. I can make a conclusion that the case company B supports the proposition 3 stated in chapter four. The international knowledge can be seen as a very important explanatory factor behind internationalization decision-making at the early state of company's life cycle.

In this case of company B the key founders had international knowledge and know-how before starting international operations. They also felt that the already existing international competence was a vital characteristic for their international business plan overall. The gaming industry can also affect on this conclusion. The industry can set up some kind of pressures and minimum requirements for new competitors who wish to enter into international gaming markets.

5.2.4 Achievement of Business Networks, Alliances or Partnerships

The Case Company A

The case company A has been building and branding a geographically extensive market intelligence network to achieve local information from required areas. Company A collaborates with approximately 90 local partners through the network on a daily basis. Throughout the network the case company A achieves access to local knowledge and expertise all around the world. With the help of network partners company A can serve their customers in a highest standard as possible, and can serve local knowledge and analysis from a wide geographical locations without establishing own offices in particular market areas.

"Our company as a market research actor, leads to the need to have wide business network and access on local knowledge."

"The network isn't however seen as a motivator for company's internationalization – it is more of a supporting factor, which would have been built anyway."

"The network, which we have built with the help of our network partners is in continuous use."

According to the interviews, the case company A has gotten significant advantages of their network in many ways. Firstly, the list of network partners is so extensive that it creates respect and confidence. This is an advantage, which is achieved even before the use of the network. At the next stage are the advantages, which are achieved from the use of network. Secondly, company can make commissions in different countries. This increases the scale of customer base and thus has concretely affects company's net sales. Because of the capability of wider market research the company can have access on a larger part of their customers' budgets comparing to situation where the case company A would serve only domestic market research. Thirdly, there are situation where the software of the company is sold through their network without the continuous effort of the case company A. The fourth advantage achieved from being a part of the network, is the continuous possibility to see the development of markets, market actors and feasible growth opportunities.

According to the case company A, the achieved advantages from the alliances and network activities are significant. The partnerships are used continuously because of the characteristics of their product and services. Even the achieved collaboration advantages mentioned above are remarkable, as the case company A sees those as important factors for the business but not as vital for their internationalization. The case company A has used hybrid internationalization strategy, meaning that they have used entry modes, which has best suited for entries in particular market areas. Thus, the network has not been seen as the only internationalization channel into foreign markets.

The Case Company B

The exploitation and gathered advantages from networks and partnerships have been significant factor for the case company B's international operations. At the beginning of international operations the need of networks was on its largest scale. After the 'rush' to internationalize, the need of partnerships is still important but not as vital as it was at the beginning. The business of the case company B was not that straightforward that it would have been forced to operate with other market actors. According to the case company B, some of the actions could have been made alone without partnerships, but in a wider picture the implementation of the whole business idea would have been extremely difficult as being separate from the other market actors. The case company B joined intensively into the network operations, formal and informal at its inception.

"It is not clever from the small market player to establish its operations into every continent to compete globally against every other market actors. There are a thousand similar companies all over the world, half of them local and the rest from somewhere else. Competing at the same time with everyone – no one has resources for that!"

First of all the case company has operated with the institutional partners, for example Finpro and TEKES. From these institutional authorities company B has gotten internationalization services like market information and contacts, but also vital financial support. Secondly, through the network of the Nokia, the case company B has gotten position in Forum Nokia network. With the help of different events, the company has achieved more visibility in the gaming industry. In addition, the IGDA (International Game Developers Association), which is so called parent organization for game developers in the international markets, has matched industry actors together.

According to the case company B, in addition to those formal networks, there are a lot of informal networks surrounding the gaming industry. The informal networks might have a remarkable affect on company's international operations and success overall. Informal advantages can take place between network partners in the forms like technological assistance, hardware lending and even sharing contacts with competitors. Then there might also appear personal level networks, including a wider swap of opinions, information and experiences. Through these informal networks the case company B has broadens the recognition and visibility of the company.

"Networks had an unquestionable significance especially on internationalization into United States. If we think how small player we were at the beginning of 2005, there would not have been any possibility to enter into those markets alone."

"We used our networks also for product distribution, but at the end of the day it is always the issue between operator and you – networks do open doors into international markets, but the rest of the work has to be done all alone."

According to the case company B, the networks are vital for born global firms. However, there is a lot of work to be done by network actors individually. The maintenance and development of those partnerships are time and resource consuming and there might appear negative issues, even breach of contracts.

The gathered information from the case companies confirmed the importance between the international operations and the collaboration with other market actors. The networks are respected especially because of companies' size-related characteristics and the business choices. The empirical findings give the support on the proposition number 4 stated in chapter four. Even if the networks themselves have not been the main driver for internationalization of the case companies, the collaboration with other market actors have had a significant effect on the successful internationalization and the growth achieved from international markets. Thus, the networks can be seen as a pivotal explanatory factor behind both the network and born global models.

5.2.5 Achievement of Some Competitive Advantage

The Case Company A

According to the case company A, motivations behind their internationalization has been firstly the interest forward the international markets of business-life service industry. Company's key persons found that they had something new to offer and possibility to captivate some part of the markets from the existing market actors. Secondly, because of the company's services is quite a niche region in the business service industry, it was clear that the demand from domestic markets could lead on relatively small growth in the future. These factors with the company's new growth strategy motivated the case company A to internationalize.

The internationalization has brought with it a lot of knowledge from the international business and markets. These experiments have helped the case company A in the packaging their product and services and increased the product suitability on international customers. Also the ability to monitor the market actions in a wider spectrum has increased the achieved advantages from the international operations. The combination international motivations and experiments have resulted in the kind of advantage combination, which would not have been possible to achieve from the domestic operations alone.

According to the case company A, they started their operations abroad because the possibility to achieve strong competitive advantage. The advantage was, and still is, based on the unique product and service combination. The main customer focus is medium-sized companies, without any kind of industry restrictions. The company has operated now approximately eight years in the international markets, but still do not have competitors with identical business concept. Thus, company A has managed to develop a unique portfolio, which is clearly a powerful competitive advantage against the previous intelligence service actors and new comers.

The interviews also revealed that the case company A has consolidated its international position thorough the development of the extensive network. The case company A can achieve a variety of advantages from its network through effective operations, but also by increasing the customer confidence by being an important actor in the worldwide network.

The Case Company B

The interviews revealed, that the company did not have so called internationalization period at the beginning because the company was international from its inception. Thus, the achieved competitive advantage from the internationalization has to be defined a bit differently in this particular case. At first I will analyze the main advantage what the case company B had in its business plan, and later on, what kind of advantages were related on international market operations.

According to the case company B, the main competitive advantages they were aiming to achieve were a dissimilar game portfolio comparing the competitors, and the most effective production technology in the market at that time. This meant that the combination of inwardly developed technologies and tight focus strategy enabled for the case company B a shorter product development cycle.

"We had a tight product portfolio for which we knew there was demand for in the target markets. Our technology was developed inwardly and a bit later, the technologies had matured when we came in...probably we achieved some late mover advantage from it."

The focus of the company's strategy made the brand creation and brand management also much easier. In addition, the whole basis for the game development was the orientation of high quality products. The key founders aspired to productize the game portfolio, but still leave options for customer-specific tailoring. All of these advantages were mentioned in the business plan to be as competitive advantages towards the other market actors.

"The company's internationalization...when all of your competitors are in the same position as a small born global company, you do not get any particular competitive advantage towards your competitors of the internationalization...international focus was vital for all of us."

According to the definition in chapter four and the previous quotation above, we can assume that the case company B was not internationalized to achieve any competitive advantage from international markets. However, there were advantages and necessities for the case company B to start their operations straight away in global markets. First was the financing aspect; the interviews revealed that the company would not have achieved the vital financial support from the investors by having the domestic game development focus. Secondly, the company needed a large demand to encompass the significant development costs, thus the international market with its larger number of potential customers was the only option for the case company B. These advantages of international markets were the same for all the gaming industry actors, thus they did not offer any competitive advantage or better position towards competitors.

As a third advantage dimension, the interviewees agreed that the case company B achieved advantage from its fast 'stampede' into global markets. This was achievement, which was recognized around the gaming industry. The case company B achieved a positive image in the market for its operations, and this resulted fairly quick 'approval' from the key operators for further co-operations.

Summarizing these results, the case company A had a clear competitive advantage achieved from its unique product and the company had received clear signs that there were potential for further growth abroad. The key founders knew that the demand in international markets was parallel to domestic markets, but much more extensive. Thus, we can assume that one of the reasons why the case company A internationalized abroad was the possibility to achieve competitive advantage from its unique product-service portfolio.

Whereas, the key founders of the case company B admitted that the international market situation were very similar for all its competitors during at the beginning of operations and thus there were not any competitive advantage achieved from the internationalization of the company. In addition, as stated earlier, the internationalization of the case company B was rather a common company establishment into target markets than an internationalization process abroad. There were competitive advantages and common advantages achieved from the markets, but none of those were achieved because of internationalization. These fundamental differences between the case companies make the analysis and the comparing more difficult and thus do not offer the most reliable information for generalization.

However, according to the empirical findings from the case company A and B, the proposition 5 settled in chapter four, is confirmed by the case company A, and not confirmed by the case company B. The biggest difference between the case companies came probably because of the choice of different international strategy. The case company A, had the operations in domestic markets before going abroad, and thus internationalization stage is noticeable, whereas the case company B did the first moves in global markets, and is therefore more difficult to analyze. We should not forget the significance of the different industries; their unique characteristics and requirements for the market actors.

5.2.6 The Industry Pressure Behind Internationalization

The Case Company B

According to the case company B, the gaming industry has had a significant effect on the decision to establish born global company. Firstly, the industry's core area is in international markets and also the demand in domestic market was too small. Thus, the industry can affect on company's internationalization decision through its core area and the scale of demand. As defined, the market demand is one of the industry reasons, which has motivated the case company B to start at the international markets. The domestic demand for mobile games was described to be too small before the company establishment in 2004. In addition, as the industry pressure was the much higher in development of technologies and relations in the international gaming industry: including the high cooperation with the mobile operators and the mobile hardware suppliers. According to the case company B, the gaming industry is like a significant 'author', which determines the main frameworks for the industry players.

"The international status of the firm is more like a 'hygiene' factor in the gaming industry: if you are not an international player, you do not operate in the gaming business – as a game publisher."

"If the company does not internationalize or take the born global strategy, the company does not have vital conditions in general..."

As I mentioned in the section 5.2.5, the common advantages of international markets are flexible financing and larger demand. The latter can be seen both as an advantage and as a pressure to internationalize. However, the relation between the pressure of the gaming industry and the investors' will to invest in international high-risk start-ups is much harder to measure and test. The practice has shown that the international game developers are more likely to achieve suitable financing options from the international investor than banks. In fact, the game publishing is usually analyzed to be outside the risk portfolios of common banks, thus venture capital investors can be even the only accessible source of finance. According to the key founders of the case company B, the born global model was already given and settled as a one of the requirements to achieve the 'place' in the gaming industry.

According to the case company B interviews, the international dimension of industry can offer in one hand a larger potential on growth and successful business, but on the other hand the industry can also set up some pressures and minimum requirements for companies to internationalize. The gathered empirical evidences from the case company B supported the proposition 6 presented in chapter four. There is variation between the modes of industry pressures, but as a whole the industry pressure is significant motivator behind the company's decision to start international operations.

5.2.7 Organizational Structure Questions Behind Internationalization

According to the case company B, the organizational structure they built was lean. This meant that the organizational hierarchy was kept as flat and non-bureaucratic as possible. The structure was divided to three parts: firstly, the sales and marketing, secondly, the production department, and thirdly the back office. The matrix structure was build for every project separately and also some outsourcing was used in marketing campaigns.

The interviews revealed that the lean organization structure is natural and suitable choice for small and medium-sized organizations at least at the beginning of the operations. Thus, there are not any unnecessary overhead costs, which would encumber the cash flow of the company. The lean organization structure can also secure the agility and flexibility of the company against some unexpected occasions. There are also some challenges in using and developing the business through lean organization structures. The case company B tried to avoid these challenges through headhunting the key persons from other similar projects, thus the personnel had experience and know-how from identical organization structure and business operations. After the most rushing time of company establishment, the company was more stabilized and evolved to be more self-contained from its founders.

"I cannot see any relation between company's organization structure and company's internationalization. The organization structure has to be suitable for company's culture and business operations - the inward life of the company overall."

According to the case company B, the organization structure does not play a significant part in the internationalization decision-making. The lean organization structure was however seen as a workable method to secure the flexibility of the company. The born global operations in general requires flexibility from the company, thus the organization structure of the case company B can nonetheless be seen as a positive characteristic of company supporting the international business operations and dynamic activities.

"In practice the sales persons do the internationalization work and are the image of the company - it really does not matter who works at the back office. However, important point is that the company's personnel know why we do operations what we are doing, and for that reason the lean organization is powerful method. Personnel feel that they can truly participate and feel that they do momentous work."

According to these results the proposition 7, which was presented in chapter four is not confirmed. There cannot be seen a pure relation between the internationalization of the company and the use of lean organization structure. The advantages from the lean organization structure becomes concrete in various ways behind the company's operations, for example though flexibility, lower costs and higher personnel motivation.

5.3 Findings Outside the Research Propositions

In this part of the chapter I will reveal research findings that were not mentioned in the theory framework (chapters 1 and 2) nor in the research propositions (chapter 4). The last part will include also the summary of the research findings.

5.3.1 The Relation Between Industry Pressure and Internationalization

The Case Company A

According to the case company A, the business service industry has had a significant affect on the decision to internationalize abroad. Thus, the industry pressure can be seen important internationalization motivator not just for born global companies, but also for network companies. The particular industry is fairly niche business area and therefore the total demand in domestic market, in this case in Finland, was limited for further growth. Thus the industry can affect on company's internationalization decision through the scale of demand.

"We cooperate already with half of the Finnish medium-sized top 50 companies and the rest of the companies have found some other way to solve their market intelligence questions. The scale of target customers for example alone in London is like hundreds of medium-sized companies and some of them do not even know that there is need to do market follow-up work and some company could even serve it."

Secondly, according to the case company A, the market intelligence service is fairly young area in the business service industry. In many cases the daily sales work had to be started from the questions: What is market intelligence? Why would we need any market scanning? Thus, the case company A is in the position where it starts from the customer education and the creation of the demand from zero. Thus, the development stage of industry can motivate and create a positive pressure towards internationalization. Because of the present development stage of the industry, the case company A has achieved a strong position being the first market intelligence service provider with its unique product portfolio within the large market area. The case company A could be clarified by the network division to be somewhere between the development of the early starter and the lonely international (see definitions in chapter 2.6 and Figure 2).

"The information industry is international, thus our customers requires the information flow from all around the world."

"The customers are global players, thus the information sources and requirements are global too. The global aspect is more as an inward-built characteristic of the industry."

According to the case company A the gathering of international information is vital for the daily business. Most of the local information is gathered by internet, however some of the local data sources can be fairly closed for 'outsider' use, which is the stage where the need of the expertise of local network partners or establishment of own agencies come in to the picture.

The empirical findings from the case company A supported the issue that the significance of industry pressure for the company using a network model for its internationalization is significant. The comparison between the case companies revealed fairly different industry pressure factors, but the conclusion was similar. First of all the demands for the case companies' products are geographically extensive and the small domestic demand do not encourage staying only as a national operator. The development stage of the industry can be one of the possible pressure factors, and in this case the early development stage can be seen as a positive issue. Through the internationalization, the case company A has achieved many of early starters and lonely international advantages, for example strong relations with network partners, but also with end customers (see Figure 2).

5.3.2 The Relation Between Chosen Internationalization Strategy and the Conscious Risk-Taking

The risk awareness and risk behavior of entrepreneurial activities has been described to include higher risk than the other activities. However, this assumption does not always apply as entrepreneurship is not always risk taking and in fact some entrepreneurship types may involve actually risk avoiding (Webster, 1977). Das and Teng (1997) explored the different entrepreneurial risk behaviors through different entrepreneurship types with the operational time perspective (short and long range). Entrepreneurs with short-range perspective are more likely to take higher risks, to have limited time orientation in their businesses and aim to achieve faster growth. On the other hand, entrepreneurs with long-range perspective are expected to behave on a lower risk level, still meaning that they do take part in risk businesses, but not forgetting the long-term objectives.

The different risk behavior between different entrepreneurs gets the support from this multiple case study. There were remarkable signs of the different risk awareness and risk willingness between the case companies. The differences were present especially in the companies' strategic choices, international business strategies, growth targets and financing sources. The selection of internationalization strategy somehow seems to describe the company's risk behavior fairly well.

"The risk related to equity-financed start-up is total – we invest a couple of millions into the company's operations and in the worst scenario we realize after a year that the business idea did not work at all." The case company B, the former Head of the Sales and Marketing

According to the quotation above, the company B took consciously high-risk approach in its immediate internationalization through born global firms-model. In addition with the fast growth orientation, the major financing source seems to have significant effect in this case on the propensity to higher risk-taking. Thus, the venture capital financing and the managerial assistance can increase the willingness and pressure of the company to involve business operations, which might in the best scenario result in the fastest growth, but on the other hand significantly increase operational risks.

"It was important that we trained international operations in a small scale before we did bigger movements in the global markets." The case company A: The Vice President

The previous quotation from one of the case company A interview supports the idea of lower risk-taking relation with the international business decisions and the long-range objectives. Probably the company A's key persons wanted to secure that the demand for their product was real before the more extensive market investments and commitments. Even if the new growth vision was created and launched during years 1999 and 2000 it seems that the long-term objects have been preferred over the short-term fast growth and high-risk orientation.

The straight relation between the entrepreneurs' risk behavior and internationalization model selection is difficult to prove. There are diversified group of factors, which might affect the internationalization strategy selection of a company. However, these cases represented evidence about the division of the particular risk awareness and the international business behavior. Leaning on the Das and Teng (1997) classification and the gathered case materials: the born global firms-model can be seen as a short-range and high-risk oriented strategy whereas the network model represents a long-range and lower risk alternative for internationalization.

6. Results

I gathered seven different explanatory factors for the network and born global firm-models and tried to examine how well these theoretical factors have explained case companies' internationalization and international decision-making. The explanatory factors are listed in Table 1 and the assumed importance levels for each of the factors in Table 3. See also the summary in Table 6 below for the research results.

The first explanatory factor was directed for the born global firm (the case company B). The internationalization of born global companies is assumed to occur from companies' inception. As the interview quotations showed the immediate internationalization of the case company B was outcome of different internal and external factors. Unquestionably, the immediate internationalization has been consequence of the strategic decision-making of the key persons. Business plan decisions like what kind of products they wanted to offer, for whom, and when, have mostly led the company's international business operations. Other important factors were that the customer demand and the center of the gaming industry were located in the foreign markets. In addition, the low levels of the higher end mobile phones in the domestic markets motivated and forced the case company B to position itself as an international player.

Secondly, I tested the process development assumption behind the network model. By the theoretical proposition of the network model, the network companies are assumed to internationalize through the stepwise learning and knowledge progression of national and international networks. The case company results revealed that the network relationships have been developed with partners who have been seen to entail the best possible advantage in different international business situations. Thus, the internationalization development and the location order of international target markets have been more alike indiscriminate than stepwise progression. Although, the case company had used so called hybrid internationalization strategy, the process mindset had not been assumed to be significant target country explanatory factor in any situation.

In the third proposition, I examined is the significance of international business knowledge and know-how for the internationalization of born global enterprises. According to the case company B, the international business experience, relationships and the industry know-how were necessity for the successful internationalization and the further international business operations of the company. There seemed to be some industry related characteristics (for example closed operator channel from new competitors), which probably intensified this result.

The fourth proposition of the research discussed about the pivotal advantages achieved from the business networks or partnerships during the internationalization of network, and born global enterprises. The network company interviews showed that the company had achieved variety of advantages for its international businesses from the partnerships. Mostly, the advantages were seemed to appear in daily operations, thus it was difficult to differentiate the advantage achieved for the company's internationalization and/or the daily routines. Most of all, the network relationships have helped the case company A to achieve wider visibility and reliability on the target markets as an international player. In addition, the wide data accesses on local information sources via company's network partners have offered significant advantage for the case company A's international operations. In the internationalization situation of the case company B, the network partnerships, especially the informal ones were categorized to be essential. According to the case company B, the penetration into some particular market areas would not had succeeded without the assist of network partners.

The achievement of competitive advantage as an internationalization motivator was examined as the fifth proposition. From the aspect of the case company A, the achievement of competitive advantages (larger demand on unique product, integrated network partnerships) was significant motivator for internationalization. On the other hand, the case company B was actually international from its inception, and did not have in the abstract internationalization development. This problem in definition led to the result that the case company B did not internationalize to achieve some competitive advantage. Regardless the company was definitely established to achieve competitive advantages (for example advantages through dissimilar game portfolio, and the most effective production technology) from the international businesses.

The sixth proposition was created to test if the industry pressure can be seen as a semi significant explanatory factor for the internationalization of born global enterprise. In this particular case, the industry pressure was seen as a significant explanatory factor for company's internationality from its inception. According to the case company B, the whole gaming industry requires companies to be born global firms or to internationalize fairly soon after the establishment. Internationalization of the companies is seen more like a characteristic 'grading', which should be possessed to operate in the gaming industry. The internationalization requirement might have been formed from the behavioral and learned customs, which have became as a standard. As the sixth proposition was first analyzed from the angle of born global firm, the industry pressure revealed to be significant, mostly positive, explanatory factor for the internationalization of the network company. IT-based industry has offered a positive pull out mechanism for the case company A. Information technology has enabled the fairly comfortable customs to repeat the same business concept in a wide geographical area. In addition, the development stage of the particular industry was in infant stage at the beginning of the millennium. Thus, the advantages achieved from the market positions (the early international, the only international, see the chapter 2.6 and Figure 1) have increased the attractiveness of the international markets.

The seventh proposition was directed to the connection between lean organization structure and the use of the born global model. According to the case company B interviews, there is not any further connection between successful born global internationalization and the lean organization structure. The interviews revealed that the only organization structure requirement is its suitability for company's culture, business operations - the inward life overall.

Three propositions from seven settled for this study got a full confirmation for the theoretical assumptions. One of the propositions behind the particular theories achieved partly confirmation and three of the empirical findings were reversed. The gathered results can be affected by the unique characteristics of the particular industries and the case companies. In addition, the theories are created to describe a common internationalization situations, thus there might occur occasional differences between theories and individual cases. Thirdly, the current changes and requirements in companies' operational environment are fairly transformed from the situation when the particular internationalization models were created.

Table 6 The summary of the presumed and occurred importance levels of the explanatory factors for the particular internationalization theory-lines (see the clarifications under the table)

Framework variables of the modes	Network Model Presumed/Occurred	Born Global Firms-Model Presumed/Occurred
I. In which part of enterprise's lifecycle, the internationalization decision is made	-/-	**/**
II. Internationalization is seen as a process	**/-	-/-
III. The significance of international business knowledge and know-how	-/-	**/**
IV. The significance of used alliances and networks with other market participants during internationalization	**/**	*/**
V. Internationalization is implemented for achieving some competitive advantage	**/**	**/-
VI. The significance of the industry pressure behind the internationalization	-/**	*/**
VII. Use of light organization structure enables the use of this internationalization strategy	-/-	**/-

- Means that there is no relation between the internationalization of enterprise and the theory framework factor.
* Means that there is semi-significant relation between the internationalization of enterprise and the theory framework factor.
** Means that there is significant relation between the internationalization of enterprise and the theory framework factor.

7. Conclusions

Internationalization of the enterprises is fairly new research area, and the origins are based on the international trade research. At first the research on internationalization was focused on examination of large multinational enterprises (MNEs). Since the position of small and medium-sized enterprises (SMEs) strengthened as international players and significant employers in 80's and 90's the researchers have focused more closely also on SMEs and their special requirements. This master's thesis discusses internationalization of SMEs particularly from the aspects of the network and the born global firms-models. The aim in this master's thesis is to examine how successfully the original theory assumptions, especially the explanatory factors, are valued by SMEs in the modern international business operations.

Four different internationalization theory-lines were reviewed in the second section of the thesis. The decision-making model by Dunning (1980; 1988) aims to describe the enterprise's motivation to internationalize from the economic point of view. Factors like ownership, location and internalizing of know-how are pivotal features in the decision how and where the international entry of an enterprise should be directed on. The second internationalization model, the uppsala model by Johanson and Wiedersheim-Paul (1975) was created to describe internationalization of an enterprise as a slow learning process from domestic market on country-to-country development. The network model by Johanson and Mattsson (1988) aimed to explain the internationalization also as a process based development. In addition, the business operations and relationships of the enterprise are established and developed further in the relation network with other partners in national and international levels. The fourth model which was examined in this literature review was born global firms-model by McDougall and Oviatt (1994). This model concentrates to describe the internationalization of an enterprise as a non-process based proactive development which is implemented from enterprise's inception. The main internationalization theory characteristics and definitions are summarized in the Table 2.

As it was defined and justified at the end of the literature review, the network model and born global firms-model were seen to be the most suitable strategic choices for internationalization of SMEs. By definition, the SMEs face internal shortages of information, capital, management time and experience, while externally SMEs face constraints arising from their vulnerability to environmental changes. Such fundamental deficiencies impose constraints on the internationalization of SMEs (Zacharakis, 1997). The network model and the born global firms-model seemed to take into account the special requirements and restrictions of SMEs more extensively compared to the first two theories reviewed in the chapter 2. Usually the special requirements of SMEs means that they attempt to create partnerships with other market actors to achieve the required assistance and reduce their weaknesses in international operations and foreign entries.

The two case companies were purposely selected to present the real-life cases of the internationalization implementation of two selected theories. The selected empirical research method was qualitative multiple case studies with semi-structured interviews, as this method combination enabled me to study the motivations and feelings of the interviewees. The primary materials were gathered through face-to-face and telephone interviews with some additional information enquired by email after the initial interviews. The written company documents and annual reports were used as secondary data source for this research.

The research propositions presented in the section four were based on the theory framework assumptions of the original theories. I selected seven different explanatory factors that according to previous literature motivate companies in their decision when and how to expand abroad (see the Table 3). These factors were tested with both case companies so that some of the factors were directed originally to explain just one of the models and some of them to explain both of the models. This cross examination approach revealed to be useful since it produced a couple of important findings that would not have been achieved with any other research approaches in addition to the main results.

The case results are summarized in Table 5. Internationalization from enterprise's inception in the case of born global enterprise seemed to be pivotal explanatory factor. Actually, according to results of the case company B, there did not appear to be concrete internationalization phase since the international operations were implemented immediately after the establishment of the enterprise. Linking to this international immediacy and the requirements set by the gaming industry the international business knowledge and experience turned out to be key factor for the strategic decisions and the business plan of the case company B.

The fifth proposition concerned the achievement of competitive advantage as one of the motivation factors behind internationalization. The results for the born global enterprise indicated surprisingly this to be insignificant factor. I believe this was because they could not gain advantage from the internationalization relative to domestic operations due to the immediacy of the internationalization and in addition many their competitors were born global enterprises as well, which was industry specific phenomenon. However, the achievement of the competitive advantage was significant motivation factor behind the internationalization decision-making for the network case company as expected.

Another surprise was that the process mindset of the network internationalization did not appear to be significant explanatory factor. The development of the network company's international operations did not occur in order predicted by process mindset. As presumed in the theoretical frameworks of the particular internationalization theories the assistance of network and alliance partners during the internationalization was seen as a pivotal advantage for enterprises. The empirical case results showed this assumption to be correct, especially in the case of the born global enterprise.

The importance of the industry revealed to be significant internationalization motivation factor for both of the enterprises. The internationalization and the international business requirements set by the professional service industry and the gaming industry seemed to vary remarkably. The internationalization pressure of the industry was deemed as a positive and encouraging for the network case company, whereas the internationality was felt to be necessity in the case of born global enterprise. This implies that the born global company was forced to internationalize to survive, while it was a growth opportunity for the network company.

7.1 Research Limitations and Future Research Subjects

The results of this study might be affected by the unique characteristics of the particular industries and the case companies. In addition, the theories that were used are created to describe common internationalization situations and thus there are likely to be occasional differences between theories and individual cases. Thirdly, there have been significant changes in the international operational environment and its requirements on companies since some of the internationalization models were created. In addition, as a limitation of case studies in general, the gathered research results cannot be generalized. This study has been created to explore and understand the particular motives and behavior of the selected case companies in their particular context.

One of the key finding outside the initial scope of this study relates to the effects of individual risk taking to the internationalization of companies. The research on entrepreneurial risk awareness seems to focus mainly on the different risk behavior between entrepreneurs and non-entrepreneurs, and between entrepreneurs and managers – instead of entrepreneurs of different kinds. As it was revealed in this multiple case study, there are also behavioral risk features between entrepreneurs, which may differ remarkably. Thus it is likely that the group of entrepreneurs is not homogenous, but vary significantly in characteristics like risk awareness, entrepreneurial time perspective and financial objectives. I found it would be important to conduct further research on this topic to understand better the international business behavior and the strategic decisions of small and medium-sized enterprises. Secondly, the gathered case results show that the significance of the industry as one of the internationalization motivators and/or pressure factors seems to have remarkable effect on the international strategic decision-making of the company. However there has been relatively limited amount of research on the relation between industry and internationalization and it could provide further research topics especially for empirical studies.

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Appendix 1. The semi-structured interview questionnaire

I. Company's basic information

1. What is the nationality of the company?
2. When the company is established?
3. In which industry the company is operating?
4. What is the business idea of the company?
5. How would you describe the development of the company's net sales?
6. How would you describe the development of the company's balance sheet?
7. How would you describe the development of the company's number of employees?
8. In which geographical area/areas the office/s is located?
9. What kind of organizational structure there is in the company?

II. Company's international activities

10. Does the company operate in international markets or practices inward directed internationalization?
11. What factors motivated the company to internationalize into foreign markets?
12. In which part of the company's lifecycle the internationalization decision was made?
13. How old the company was, during the first international/internationalization step?

14. Did the company's age affect on to the decision and implementation of internationalization?

15. What has been the international route of the company from the geographical aspect?

16. How the company's business operations have been delegated and implemented?

17. Has the organizational structure of the company changed during/after the international operations?

18. What kind of internationalization strategy you used? And, why?

19. Did the company's key founders and personnel have the experience and know-how from the international operations and markets before internationalizing the company?

20. Have the company achieved competitive advantage/s from the international operations? If it did, what kind of?

21. What is the significance of achieved advantages from international network/s and cooperation relating with the company's internationalization?

22. What kind of competition situation there were in the international markets during the company's first international operations?

23. If the company faced increasing competition during its internationalization abroad comparing into domestic market situation, were this mostly positive or negative factor?

24. What kind of risks there was related on the company's internationalization?

25. Has the selected internationalization model taken account the risks related on company's internationalization?

26. Did the industry affect on the company's decision to internationalize abroad?